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Exploring Finances of Panchayati Raj Institutions in Telangana State : A Study

M. Gopinath Reddy
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BEGUMPET, HYDERABAD

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Foreword

The Centre for Economic and Social Studies (CESS) was established in 1980 to undertake research in the field of economic and social development in India. The Centre recognizes that a comprehensive study of economic and social development issues requires an interdisciplinary approach and tries to involve researchers from various disciplines. The Centre's focus has been on policy relevant research through empirical investigation with sound methodology. Being a Hyderabad based think tank, it has focused on, among other things, several distinctive features of the development process of Telangana State, though its sphere of research activities has expanded beyond the state, covering other states apart from issues at the nation level. In keeping with the interests of the faculty, CESS has developed expertise on themes such as economic growth and equity, rural development and poverty, agriculture and food security, irrigation and water management, public finance, demography, health, environment, local governance, tribal studies and other studies. It is important to recognize the need to reorient the priorities of research taking into account the contemporary and emerging problems.

Dissemination of research findings to fellow researchers and policy thinkers is an important dimension of policy relevant research which directly or indirectly contributes to policy formulation and evaluation. CESS has published several books, journal articles, working papers and monographs over the years. The monographs are basically research studies and project reports done at the Centre. They provide an opportunity for CESS faculty, visiting scholars and students to disseminate their research findings in an elaborate form.

The present study on **"Exploring Finances of Panchayati Raj Institutions in Telangana State-A Study"**undertaken by my faculty colleagues Prof. M. Gopinath Reddy, Dr. N. Sreedevi and Dr. Bishnu Prasad Mohapatra presents important issues regarding the Finances of the Panchayati Raj Institutions (PRIs) in Telangana State and initiatives of the state to bring the agenda of fiscal federalism and inter-governmental transfers into forefront. The rationale of this research study emerged in the context of institutionalisation of the First State Finance Commission in the state in 2015.

The main objective of this research is to examine the status of devolution of powers to PRIs and to what extent the devolution process has helped PRIs to become financially sound, self-reliant and independent. Further, it was designed to understand how initiatives of strengthening finances of the PRIs have been taken care by the state government and what are the implications of these initiatives in making PRIs self-reliant and independent. It is also attempted to understand the fiscal scenario of the state, in particular status of SOTR (State Own Tax Revenue) and ability of the state to share resources with PRIs for a five year period. The study was carried out through employing two key research methods such as (i) In-depth interview method and, (iii) Focus Group Discussion (FGD). These two methods were applied to collect both the quantitative and the qualitative data from the various sample units (Zilla Praja Parishads/ZPPs, Mandal Praja Parishads/MPPs and Gram Panchayats/GPs).

The key findings of the study indicated that the growth of GSDP of Telangana has increased from 6.8% in 2013-14 to 10.4% in 2017-18. The total receipts (excluding borrowings) for 2018-19 were estimated to be Rs.1,41,282 crore, an increase of 22.8% as compared to the revised estimates of 2017-18. With regard to transfer from state government to PRIs, transfer from assigned sources of revenue constitute a main source of state transfer which is 67.63% followed by grant-in-aid provided to the PRIs (23.39%), SFC Release (7.16%) and transfer under state government schemes and progarmmes which is 1.82% only. As far as per capita funds flow to the PRIs, it is estimated that the PRIs have received Rs. 259.00 from central government followed by Rs.101.05 from OSR and Rs.93.25 from state government from 2014-15 to 2017-18.

The devolution of funds, functions and functionaries has not been fully operationalised in the state. Therefore, it is suggested that the devolution of functions to the PRIs becomes meaningful and effective only when the required financial support is provided. These devolutions are constitutionally mandated and to be decided on the recommendations of the SFC. The grants of the PRIs are also depending on the total number of functions devolved to these bodies. It is evident from the field study that the ZPPs and the MPPs have no taxation power therefore their financial condition is dependent on the grants provided by the state and central governments.

At the end, the study suggests some policy recommendations taking into account the issues emerged through the study. With regard to strengthening devolution of powers and resources, it suggests that the PRIs should be devolved more powers, adequate number of functionaries and funds from the state government for effective functioning. The Functional Committees need to be strengthened so that they can provide essential support to the PRIs for their effective functioning. With regard to transfers of funds from the Net SOTR of the State, (currently it is around 1.13% until the year 2017-18) this study suggests that 6.7% of the net SOTR should be transferred to the PRIs in the state and the inter-se transfers to the ZPPs, MPPs and GPs should be in the ratio of 10:20:70. Considering the requirements of the PRIs it is suggested for the transfers of Rs.57378.55 crores to PRIs for the years from 2020-21 to 2025-26. The funds should be untied in nature and should be utilised for the purpose of performing key basis services like (i) Drinking Water Supply, (ii) Roads, (iii) Sanitation and (iv) Solid and Liquid Waste Management. I am sure the study findings will be useful to the policymakers, researchers and civil society organisations working for strengthening the rural local bodies in the context of ongoing devolution regime in the state.

E. Revathi
Director, CESS

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The successful completion of this research work has become possible because of immense contribution of many individuals during the various stages of its working. We would like to express our profound gratitude to a number of persons who helped us to carry out the study. At the outset, we profusely thank Telangana State Finance Commission, Hyderabad for sponsoring this study to Centre for Economic and Social Studies (CESS), Hyderabad with their generous funding. Special thanks are due to Shri. Suresh Chanda, IAS, Member-Secretary, TSFC for offering valuable inputs in the preparation of the report.

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During the period of field visit and data collection, we have received enormous support and cooperation from C.E.Os of various Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) of the state. We are extremely grateful to the Elected PRI Members and Functionaries who provided important information related to this study and facilitated logistic support for the smooth completion of the field work. We thank to the Field Investigators namely Mr. C.H.Raju, Mr. O. Shivsankar, Mr. Mallesham.K and Mr. P.Sudheer for their support for gathering field data from various sampled ZPPs, MPPs and GPs of the state.

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Authors

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Acronyms and Abbreviations

BE	Budget Estimate
BRGF	Backward Region Grant Fund
CAG	Comptroller & Auditor General
CEO	Chief Executive Officer
CESS	Centre for Economic and Social Studies
DPCs	District Planning Committees
FGD	Focus Group Discussion
FSFC	First State Finance Commission
GDP	Gross Domestic Product
GP	Gram Panchayat
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
MoPR	Ministry of Panchayati Raj
MPP	Mandal Praja Parishad
NSSF	National Small Savings Fund
PESA	Provisions of Panchayats (Extension to Scheduled Areas) Act
P & RD	Panchayat & Rural Development
PRIs	Panchayati Raj Institutions
RD	Rural Development
RE	Revised Estimate
RGSA	Rashtriya Gram Swaraj Abhiyan
SC	Scheduled Caste
SFC	State Finance Commission
SHG	Self-Help Group
SOR	State Own Revenue
SOTR	State Own Tax Revenue
SONTR	State Own Non-Tax Revenue
ST	Scheduled Tribe
TISS	Tata Institute of Social Sciences
TSFC	Telangana State Finance Commission
ULBs	Urban Local Bodies
ZPP	Zilla Praja Parishad

CHAPTER-1

Introduction

1.1. Background

Working of the decentralised self-governing institutions has been extensively examined by many scholars in the recent years, in particular to explore their role in delivering goods and services effectively. As a part of this initiative, some scholars have tried to examine role of these institutions in making them financially self-reliant and independent. In the recent years, a wide array of research studies has conducted which observed that these institutions have become instrumental in delivering goods and services in the rural areas in many countries in the world. The processes of devolving functions, functionaries and funds to these institutions in many cases helped them to discharge their role effectively as instrument decentralised self-governing institutions. Considering the advantages of decentralisation, many countries have devolved of administrative, political and fiscal responsibilities to lower levels of government. This trend towards decentralisation is seen in countries with Federal as well as Unitary systems and has spanned across developing as well as developed countries (Chakraborty *et.al.*, 2018). The decentralisation policies employed by the government of various countries have helped the local governments to discharge their functions effectively.

In India, the decentralised self-governing institutions have become instrumental in deepening local democracy and promoting socio-economic development. The Panchayati Raj Institutions (PRIs) have emerged as important components of decentralised governance in rural areas after the enactment of 73rd Constitution Amendment Act in 1992. The most crucial components of the Act are Article 243 G and Article 243 ZD which provide for the creation of institutions of self-government at the local level along with the devolution of financial and functional responsibilities which include 'planning for economic development and social justice'. A significant component of it is vesting fiscal powers to the PRIs which are mentioned under Article 243 H of the Constitution. Further, Article 243 I and Article 243 Y of the Constitution spelled out that the Governor of a state shall, as soon as, may be, within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitutes a Finance Commission to review the financial position of the Local Bodies (LBs) to make recommendations to the Governor on these matters. As regards to this task is concerned, it is constitutional responsibility of the State Finance Commission (SFC) to determine the principles which should govern (i) the distribution between the state and LBs (PRIs and ULBs) of the net proceeds of taxes, duties, tolls and fees leviable by the state and the inter-se allocation between different PRIs and ULBs; (ii) the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the local governments; (iii) the grants-in-aid from the Consolidated Funds of the State to LBs. Another key task of the SFC which is mentioned under these Articles are the measures needed to improve the financial position of the LBs. On this issue, the SFC can also examine any other matters, which the Governor may refer to the Commission in the interest of sound finances of the PRIs and ULBs. So, the overall constitutional provisions laid down under Article 243 I and 243 Y for the SFC is to determine the fiscal transfer from the State to the LBs, in the form of revenue sharing, assignment of taxes and grants-in-aid.

As a part of amendment to Indian Constitution and enactment of the 73rd Amendment Act, Article 280 of Indian Constitution was also amended with insertion of two sub-clauses in clause 3 viz (bb) and (c)[1]. These sub-causes empower Union Finance Commission (UFC) to devolve funds to PRIs as part of augmentation of the Consolidate Funds of the State. It is a key task of UFC to recommend measures needed to augment consolidated funds of the state to supplement the resources of the PRIs and ULBs in the state on the basis of the recommendations made by the Finance Commission of the concerned state (Oommen, 2005). As a result of this initiative, the UFCs starting from Tenth FC to the recent one (Fifteenth FC) have become instrumental in transferring funds to the PRIs since last two and half decades. Working of UFCs and their recommendations of transferring funds to the PRIs since last two and half decades revealed that the PRIs have substantially gained because of UFC transfer and have utilised the funds for delivering goods and services in rural areas. In the recent years (2021-26), the 15th UFC has recommended for providing financial assistance of Rs. 2.4 Lakh Crore to the PRIs. For the PRIs of Telangana, the 15th UFC has recommended Rs. 7201.00 crore for the period from 2021-22 to 2026-27.

In the case of Telangana, the PRIs have been institutionalised and have taken various initiatives for providing basic services to the people of the rural areas. In the recent years, these institutions have taken many initiatives of providing basic services to the people of the rural areas. The state government has enacted State Panchayati Raj Act, 2018 (Telangana Panchayati Raj Act 2018) for effective functioning of PRIs in the state. Further, various initiatives have also been made to strengthen the functions and

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[1] Article 280(3) (bb) and (c) of the Constitution of India stipulate that "the Union Finance Commission should recommended the measures needed to augment the Consolidated Fund of the State to supplement the resources of the LBs (Panchayats and Municipalities) in the State on the basis of the recommendations made by the Finance Commission of the State".

finances of the PRIs of which key efforts are (i) institutionalisation of the SFCs in the state in 2015, (ii) enactment of the State PR Act in 2018 and (iii) devolving funds to the PRIs on the basis of recommendations of the SFC in 2020. The First SFC of the state was constituted in 2015 by the Governor under the provisions of Article-243 (I) and 243(Y) of the Constitution of India. The Terms of Reference (ToR) of the Commission which highlighted three basic issues viz (i) distribution between the state and LBs of the net proceeds of the taxes, duties, tolls and fees leviable by the state, (ii) the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the LBs and (iii) the Grants-in-aid to the LBs from the Consolidated Funds of the State are mainly based on the provisions laid down in Article 243 I and 243 Y of the Constitution of India.

The present monograph is part of a larger study conducted in the state in the context of constitution of the First State Finance Commission in 2015. It tries to explore the status of devolution of functions, functionaries and funds to the PRIs and to what extent the devolution process has impacted on strengthening working of PRIs in the state. The study has also examined the financial position of the state and status of various key sources of state finances viz (i) State Own Revenue (SOR) and (ii) State Own Tax Revenue (SOTR) and to what extent better financial position of a state can influence the finances of the PRIs and promote a healthy fiscal federalism and inter-governmental transfers in the state. Further, the implementation of various legal provisions such as (i) the PR Act, 1994 of Andhra Pradesh and (ii) the State Panchayat Raj Act, 2018 has also been discussed and role of these legal provisions for strengthening PRIs have been highlighted. On the basis of primary data collected from the five districts of the Zilla Praja Praishads (ZPPs) of the state and secondary data collected from various government departments, this study has offered some concrete suggestions for strengthening financial position of the PRIs and making them financially self-reliant and independent.

1.2. Rationale of the Study

Any study related to fiscal federalism and inter-governmental transfers is based on understanding few important issues like (i) prevailing economic scenario of the state and willingness of the state to follow the core principle of inter-governmental transfer (ii) financial scenario of the Local Bodies, their role in implementing development programmes and public sector expenditures (iii) and the share of the Local Government's revenue to total revenue of a state. The own revenue position of the LBs and their willingness to levy and collect revenue is also quite important in strengthening fiscal federalism and inter-governmental transfers agenda. In the case of working of LBs in India, fiscal transfers to these bodies have been conceived an important component of fiscal federalism and inter-governmental transfers since the enactment of 73rd constitutional amendment act. The institutionalisation of the SFC as per provisions laid down under Article 243 I and 243 Y of the Indian Constitution and their working in various states since last two and half decades has helped to advance the agenda of fiscal federalism and inter-governmental transfers into forefront. This scenario has motivated many scholars to work on this issue and understand the dynamics associated with them.

The Panchayats in the recent periods have been playing a key role in shaping the political economy of the people in the rural areas. In Telangana, the PRIs are also involved in the processes of promoting economic development in rural areas. However, the PRIs have also faced various challenges while discharging their duties as institution of self-government in rural areas. Despite various initiatives taken by the state government to devolve more powers and functions to the PRIs, the working of these institutions has not been entirely fulfilled the desires of rural people in the state. The growth of multiple and parastatal agencies transgressing the assigned functional domains of PRIs has posed a serious threat to efficient fiscal decentralisation. Poor revenue transfers to the PRIs from the state government have in many cases restricted their function as institutions of self-government.

Considering the abovebroad issues, this study was designed to understand few specific issues associated with fiscal decentralisation and finances of the PRIs in Telangana viz (i) the devolution employed in the state in the post-73rd amendment period (ii) financial position of the state and status of SOTR of the state, (iii) key sources of revenue of PRIs and pattern of funds flow to these bodies (iv) and fiscal scenario of the PRIs in few districts of the state and role of PRIs in exploiting from their own sources of revenue. Considering the wider issues of political economy of rural areas and role of PRIs in shaping the political economy in these areas, it has been attempted to understand fiscal scenario of these institutions in the present order of political economy of rural areas.

1.3. Objectives of the Study

1.3.1. Broad Objective: On the basis of the above mentioned issues, the broad objective of this study was to examine the status of devolution of powers to PRIs and to what extent the devolution process has helped PRIs to become financially sound, self-reliant and independent. Considering the constitution of the First SFC and its working in the state as a benchmark, it was attempted to further understand how initiatives of strengthening finances of the PRIs have taken care by the state government and what are the implications of these initiatives in making PRIs self-reliant and independent. It was also attempted to understand the fiscal scenario of the state, in particular status of SOTR and ability of the state to share resources with PRIs for a five years period.

1.3.2. The specific objectives of the study are

1. To understand fiscal scenario of the state, in particular status of SOTR and different factors influencing the fiscal scenario of the state.
2. To examine the current financial position of the PRIs and status of own revenues and their role in strengthening finances of the PRIs.
3. To understand the finances of the PRIs and status of functions and functionaries of these bodies in selected study locations (Districts) in the state.
4. To assess the requirement of funds of PRIs for next five years and suggests suitable mechanism for strengthening finances of these bodies in the state.

1.4. Research Method and Data Source:

1.4.1. Method: The study was conducted using a mixed-method research design and used quantitative and qualitative research techniques. As a part of the mixed-method approach, the study used two key research methods such as (i) In-depth interview and, (ii) Focus Group Discussion (FGD). These two methods were applied to collect both the quantitative and the qualitative data from the various sample units (Zilla Praja Parishads/ZPPs, Mandal Praja Parishads/MPPs and Gram Panchayats/GPs). The quantitative and qualitative components of the research topic such as (i) devolution of funds, functions and functionaries, (ii) revenues of the PRIs and status of own revenues, (iii) Functionaries of the PRIs and status of Functional Devolution (iv) and challenges faced by the PRIs in the way of their functioning were covered through the process of collection of qualitative and quantitative data.

1.4.2. Data Source: Two key sources were used for collecting data viz (i) field source and (ii) documentary source. As a part of collecting data from the field (sampled units), direct interaction was held with key stakeholders those who are associated directly or indirectly with the issue. Similarly, as a part of collecting data from documentary source, a comprehensive desk-review and office visit mechanism were carried out to collect data from this source. From the documentary source, it was attempted to collect various information like legal provisions (Acts, Rules and Government Orders) related to PRIs, study reports prepared by various ministries and Government departments, and various research publications considering the wider scope of the study.

1.5. Geographical Coverage and Selection of Sample

1.5.1. Geographical Coverage: As far as geographical coverage of the study is concerned, the study was confined to the state of Telangana, a state located in the southern part of India. The state was selected considering the working of the First State Finance Commission in the state, policy decisions of the state to devolve more powers and functions to the PRIs and involvement of PRIs in promoting socio-economic development in the rural areas.

A pre-decided set of five ZPPs, 10 MPPs and 20 GPs were taken as a sample of the study. For selecting these units, we have followed a multi-stage sampling framework. The five ZPPs (old ZPPs) (currently there are 33 ZPPs in the State as per data presented in Table 4.1. of this Monograph) were selected from three regions of the state like (i) South Telangana, (ii) North Telangana and (iii) Central Telangana. While selecting the ZPPs, it was also considered to cover at least few ZPPs from the tribal areas for getting a clear view about working of PRIs and their financial positions in these areas (PESA areas). Table-1.1 presents the administrative profile of the five ZPPs/Districts.

Table 1.1: Administrative Profile of the Sample ZPPs/Districts

Regions	Name of the ZPPs	Number of MPPs	Number of GPs	Number of Villages	Population (2011 Census)
North Telangana	Adilabad Karim Nagar	52 57	866 1207	1741 1207	22,35,071 28,49,222
South Telangana	Warangal Nalgonda	50 59	1014 1159	1384 1161	35,12,576 50,93,743
Central Telangana	Ranga Reddy	33	705	1055	52,96,741
Total		**251**	**4951**	**6548**	**1,89,87,353**

1.5.2. Selection of Sample Units and Justification: For the purpose of field survey and data collection as mentioned above five ZPPs, 10 MPPs, 20GPs and 20 Villages were selected from across the region of the state based on few criterions.

Selection of the ZPPs: The ZPPs were selected on the basis of a number of indicators like location of the ZPPs in the state, their socio-economic characteristics, demographic scenario and position in collecting own revenue. In thiscase, we categorised ZPPs as per their geographical location, position in state's development profile, and concentration of population, in particular tribal population in the ZPPs. Accordingly, from the northern region two ZPPs Adilabad(PESA), Karimnagar(Non-PESA), from southern region two ZPPs Warangal(PESA), Nalgonda (Non-PESA) and from the central region one ZPP(Ranga Reddy) were selected for the purpose of field study and data collection. In this way five ZPPs were so selected from the state for the purpose of field study and data collection. Table 1.2 shows the geographical location of the five selected ZPPs.

Table 1.2: Location of the ZPPs in the State

Name of the ZP	Location	Development Indicator	Tribal Concentration
Adilabad (PESA)	North	Backward	High
Karimnagar	North	Developed	Low
Warangal (PESA)	South	Developed	Medium
Nalgonda	South	Backward	Low
Ranga Reddy	Central	Developed	Low

*Source:*Field Survey, 2018

Selection of the MPPs: The MPPs were selected on the basis of their geographical location and development position of an MPP in a ZPP. Based on this formula, 10 MPPs were selected and among 10 MPPs, three MPPs were selected from the tribal areas or the PESA Areas of the state.

Selection of the GPs: In the third stage, 20 GPs were selected on the basis of their geographical location and scenario of development of the GP in the MPPs. On this basis, one GP near the MPP head quarter and one distant GP were selected for collection of field data.

Selection of Villages: One village from a GP was selected for the purpose of interacting with citizens as part of data collection process. On this basis, 20 Villages were covered which are mostly located in the GP headquarters. While selecting the villages, it was considered to look into the existing development patterns and role of GP in providing basic services in the villages.

The final sample consisted of Five ZPPs, 10 MPPs, 20 GPs and 20 Villages spread across the three regions of the State.

1.6. Development of Study Instruments and their Application

The key instrument of the study was a questionnaire which was developed to interact and gather data from various categories of the respondents. As per this, three distinct types of questionnaires, one each for the ZPPs, MPPs and GPs were developed and used for data collection. Further, two types of tools were also developed viz. (i) a checklist for conducting FGDs (ii) and a questionnaire for conducting in-depth interaction with various stakeholders such as PRI Members and Functionaries. Apart from the above mentioned tools, a questionnaire was developed to collect data from various government departments and PRIs-ZPPs, MPs and GPs of the state.

1.7. Data Collection Process and Steps

For the purpose of collecting data from the selected units (ZPPs, MPPs and GPs) we followed a sequential approach through visiting field in a phase way like (i) initial visit or primary visit, (ii) main visit or visit for data collection and (iii) final visit or visit for filling data gaps and correction.

1.7.1. Initial Visit and Interaction with SFC Functionaries: At the outset, the study team visited and interacted with the key functionaries of the SFC of Telangana located in Hyderabad since the study was conceptualised in the context of the formation of the First SFC of the state in 2015. At this stage, some initial data were collected from the SFC office and it was analysed to further conceptualising the study and developing questionnaire for data collection from the field.

1.7.2. Collection of Field Data: The data collection process was carried out through various steps. For this purpose, a detailed field visit plan was chalked out and communicated to the Chief Executive Officer (CEO) of the five ZPs of the state.

In the second stage, training for field investigators was organised. In this training, there was discussion regarding (i) various questionnaires developed for data collection (ii) and plan of action for field visit and data collection. After training, the research team proceeded to sampled ZPPs for the collection of data. In this phase, an intensive field work was carried out from the month of July 2018 to August, 2018. It was started from Adilabad ZPP and ended at Ranga Reddy ZPP with a study team of five field investigators and two supervisors. During the field work, the study team also tried to collect various other key information pertaining to this study.

1.7.3. Final Visit for Filling Data Gaps: At this stage, we visited few specific locations and offices and interacted with few respondents when it was realised by us that there are some gaps in our data which can be suitably addressed through adding it. At this stage, we also visited State Panchayat Raj and Rural Development (PR & RD) Department and interacted with functionaries and collected data pertaining to the issue.

1.8. Limitations of the Study

A key objective of the study was to assess the financial scenario of the PRIs and their position in exploiting own revenue from various sources. It was also aimed to examine the status of devolution of powers and functions to the PRIs and status of the OSR of the PRIs in the state. Considering the formation of First SFC as a benchmark, it was attempted to understand the overall issues of Fiscal Decentralisation and finances of the PRIs in the state. But in actual case, there are some issues which were not suitably addressed through the broad framework of the study. These issues are highlighted in the below mentioned points;

Firstly, though it was attempted to measure the finances of the PRIs and their role in delivering goods and services in the rural areas, but poor data management at the level of PRIs created some limitation to achieve this goal. As a result of this it was difficult to assess the real scenario pertaining to the study.

Secondly, a study of this kind should cover the perspectives of both the people associated with the PRIs (PRIs Members, Functionaries) and citizens so that the level of willingness of both the categories of people could have been tested. However, it was not possible to cover the views of the citizens through appropriate tools and techniques. Though we interacted with few citizens through FGDs, but these were not enough.

Thirdly, in some cases the PRI Members and Functionaries were not aware enough to provide information on various issues. This scenario deterred us to make a robust analysis of the prevailing situation.

CHAPTER-2

Finances of Rural Local Governments-A Review of Literature

2.1. Introduction

In the recent years, there has been growing interestsamong the scholars across the globe to explore various dimensions of finances of the Local Governments. As a result of this, many attempts have been made by these scholars to unravel the role of Local Governments in augmenting their finances from various sources, in particular from their own sources and from the government transfers. A series of scholarly initiatives have also been taken to understand role of devolution policies employed by the national and federal governments with an aim of strengthening the finances of the Local Governments and implications of these policies on making fiscal federalism and inter-governmental transfers system effective. A main body of these scholarly works is based on exploring the finances of the Rural Local Governments, their sources of revenues and quantum of transfers from upper level of governments to these institutions. The financial position of the rural local bodies and various factors that have been influencing financial position of these institutions have been extensively explored particularly after 1990 because of decentralisation reforms initiated in various countries in the world.

However, in the context of India, in particular after the enactment of the 73rd Constitutional Amendment Act (CAA) in 1992, many scholars have attempted to examine the key issues associated with fiscal decentralisation, inter-governmental transfers and public finance and tried to shed light on these issues in the context of devolution of powers and transfer of functions to these institutions. As a result of this, many studies conducted on this issue in the recent years have heavily focused on the role of central government, state governments and Finance Commissions for strengthening the finances of the rural local governments. With the increasing involvement of the PRIs in the process of promoting rural transformation through fostering economic development and social justice, it has become imperative to examine how better finances of these bodies can further enhance their role as institutions of promoting rural transformation. Similarly, in the case of Telangana, sequential efforts have been made to make PRIs as institutions of promoting rural transformation. This development has motivated various scholars to delve on this issue critically and demonstrate how devolution of functions, functionaries and funds to these institutions hasreinforced fostering democratic transformation.

Considering the recent research works carried out by various scholars, this chapter consolidates the state of academic research on fiscal decentralisation and has tried to explore various issues raised through this literature. Furthermore, it is attempted to examine literature available on this issue in the case of Telangana State and summarises the key findings of these research studies. This chapter divided into two broad components viz (i) Literature based on Conceptual, Theoretical and Empirical Works (ii) and Analysis of research gaps and how this research study will bridge these gaps. At the end of the chapter, the gaps identified through the review have been pointed out and key research questions are formulated to find the answers to these questions through this study.

2.2. Conceptual Discourses

Conceptualising decentralisation and fiscal decentralisation have received enormous academic attention in the recent years. As the processes of local level democratisation moved forward, conceptualisation of decentralisation and fiscal decentralisation also substantially moved from first generation to second generation. Hand in hand with research progress in this field, a set of "de-terms" (or related as federalism) came into the limelight: deconcentration, delegation, denationalisation, destatisation, and devolution. (Torrisi *et.al,* 2011). The term decentralisation has become synonymous with achieving the goal of economic development. Conceptualising decentralisation and examining its link with the concept of fiscal decentralisation and inter-governmental transfers has become a key area of inquiry in the studies of democratic decentralisation and fiscal federalism. Smith (1997) summarises that "a related but distinct process is decentralisation which relates to central government operating its own services and functions from local offices rather than from a central location". It is also commonly recognised that there are at least three concepts associated with decentralisation, namely, political, administrative and fiscal decentralisation.

2.2.1. Conceptualising Decentralisation: The term decentralisation is not strictly conceptualised as a political phenomenon but also an economic phenomena of making the state more responsive for transferring financial resources to the local governments. It is observed that with the increasing institutional arrangements and constitutional reforms, the scope of decentralisation has been widened with the emergence of the concepts like fiscal devolution and inter-governmental transfers. The concept of fiscal decentralisation has been extensively discussed by many scholars during various periods with the progress of decentralisation literature, emergence of rural decentralised governance and increasing incidences of devolution of funds to the local governments for effective and speedy delivery of public goods and services. It is argued that the essence of the decentralised governance is based upon some key factors such as peoples' participation, accountability, transparency and fiscal transfers (Braun and Grote, 2002; Tanzi 2001; Romeo 1999; Crook and Manor 1998; Litvack et. al 1998). Decentralisation is envisaged as an instrument of better delivery of development, public services and social justice (Oommen, 2010).

2.2.2. Conceptualising Fiscal Decentralisation: Fiscal decentralisation is key part of making local governments financially and functionally sound and independent. It is an integral subset of decentralisation and assumes significance because without its proper functioning decentralisation becomes inoperative and meaningless (Oommen, 2008). Fiscal transfers have an important influence on the effective functioning of Local Governments, as it provides impetus to these institutions to work as institutions of self-governments. Transferring resources to the local governments from upper level of governments is a key determinant of better delivery of goods and services. As decentralised governance needs requisite powers for effective functioning and service delivery, so the transfer of powers can help to decide the allocation and distribution of public resources, the powers to implement policies and programs and the power to raise and spend public revenues for these as well as other purposes (Johnson; 2003). The fiscal portfolio of the local self-governing institutions is based upon income from 'own revenues' and 'assigned and devolved revenues' of the government and semi-government organisations (Sahasranaman, 2012).

2.2.3. Fiscal Decentralisation and Rural Local Governments in India: Fiscal Decentralisation and transfer of funds to the Rural Local Governments or to the PRIs in the various states in India has become a key strategy to strengthen PRIs financially self-reliant and independent. The 73rd Constitutional Amendment Act of 1992 has accorded constitutional status to the PRIs in India. The rationale behind enactment of the 73rd Amendment Act was that such decentralisation and self-governance would lead to improved decision making and augment and make the provisioning of public goods more equitable (Jha *et.al*, 2019). A key way of provisioning public goods is devolving functions to the PRIs along with functionaries and finances for their effective working as institution of democratic decentralisation. The size and significance of rural local governments is a key determinant of devolving fiscal resources to them and forwarding the agenda of fiscal decentralisation.

Further, under Article 243 G, the State Legislature, by law, has to "endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level". A significant component of it is vesting fiscal powers to the PRIs which are mentioned under Article 243 H of the Constitution. The constitutional provisions laid down under Article 243 I and 243 Y underline the role of the State Finance Commission for determining the fiscal transfer from the State to the LBs, in the form of revenue sharing, assignment of taxes and grants-in-aid.

A key component of fiscal decentralisation in India is associated with transfer of fiscal resources from the central and state governments to the local governments within the constitutional framework. In the case of the PRIs, transfer of fiscal resources can be broadly divided into three categories viz (i) own source of revenue, (ii) funds flowing from the State and Central Government by way of devolution, assignment of taxes, grants-in-aid (iii) and funding under different schemes. The transfer from State and Central Governments are further clubbed into two broad heads as (i) Tied (Special Purpose) grants and (ii) Untied (General Purpose) grants. The own revenues of the PRIs are derived from various sources of taxes, tools and fees. A key source of revenue is transfer from central government and state government as per the recommendations of the UFC (Basic and Performance Grants) and SFC (Devolution, Assignment and Grants-in-aid). The devolved revenues are transfers from the state government to PRIs as per the recommendations of the SFC for implementation of various schemes and programmes (Sahasranaman, 2012). The assigned revenues are assignment of taxes and fees from the state to the PRIs and the grants-in-aid is part of both general and special purpose grants to the PRIs.

2.3. Theoretical Discourses

In the recent years, various scholars have provided adequate attention to explore theoretical discourses associated with Fiscal Decentralisation and Local Government Finances in various countries in the world. Theoretical discourses associated with examining the relationship between fiscal federalism and democratic decentralisation argues that more inclusive, participatory and environment friendly fiscal federalism can be penetrated through strengthening democratic decentralisation. It otherwise argues that democratic decentralisation is a strategy of fostering an effective fiscal federal structure in a country (Oommen, 2010). The key discourses associated with fiscal federalism theory are based on ability of the local governments to deliver goods and services to the citizens. In this context, the theoretical arguments are divided into two broad partssuch as (i) First Generation Theory of Fiscal Federalism (ii) and Second Generation Theory of Fiscal Federalism. Based on a systematic review of discourses associated with both the generation theories, in this section we have attempted to synthesise the discourses and draw a multi-dimensional framework of fiscal federalism linking with inter-governmental transfers and own revenues as outcomes of theoretical discourses.

2.3.1. First Generation Theory of Fiscal Federalism: The first generation fiscal federal theory is mainly based on the idea narrated by Tiebout (1956) and Oates (1972) which is based on the notion that decentralisation is preferable when the tastes are heterogeneous and there are no spillovers across the jurisdictions. With spillovers and no heterogeneity, a central government providing a common level of public goods and services for all localities is more efficient, with spillovers decentralisation leads to under provision of local public goods, as local decision makers do not take into account benefit going to other districts (Bardhan, 2002). Tiebout (1956) argues that when different localities provide varying mixes of public services financed from the tax revenues collected from the local population, people will tend to vote with their feet moving and settling with those localities where they perceive that they get the most appropriate mix of services for the taxes they pay. Oates (1972) argued that people in decentralised systems are better voters and exercise their preferences and influence the local decisions better through ballot, which has been conceptualised under the Decentralisation theorem. However, the arguments on transfer of the fiscal powers and resources from the central to the local level of government is linked with the idea that "numerous economic benefits arise from shifting public finances closer to the people including a more competitive and innovative public sector, improved allocative efficiency and a more competitive and innovative public sector". During this period, some scholars also attempted to link fiscal federalism with democratic decentralisation with an aim of meeting the needs and preferences of citizens through effective delivery of services by decentralised institutions.

2.3.2. A Comparison between First Generation and Second Generation Fiscal Federal Theory: A review of second generation fiscal federalism theory and comparing it with the first generation theory presented by various scholars in the context of rapid economic growth, globalisation led development and policy reforms on decentralisation. The second generation theory of fiscal federalism is mainly based on the existing political scenario, institutional arrangements and rapid economic expansion, as well as outcomes of severe contestation between the state and the market forces. The Second Generation theory emphasises the importance of incentives generated by local tax generation for fostering local economic prosperity (Weingast, 2009). The fiscal federal theory that promotes democratic decentralisation which is ideally Wallace Oates pointed out long ago should allow for an optimum equilibrium to be reached through effective citizen's engagement in expressing their preferences and local governments efficiency in meeting public demands. (Oommen, 2010).

In the recent period, the debates on fiscal decentralisation have led into more serious thinking about the political economy of fiscal decentralisation and have encouraged many scholars to delve on this issue. In many countries, the institutional arrangements and legal provisions associated with local governments have moved further warranting for exploring new theories. As a result of this, in second generation theory, the focus on building own revenue of the local governments on the basis of taxation and tax decentralisation appears to be gaining momentum. Summarising this, Bardhan (2002) highlights that the traditional theory of fiscal federalism is now being extended to the political economy setting, with the introduction of transaction costs in the political markets, or political agency problems between the ruler and the ruled, between the politicians/bureaucrats and the electorate, and for reasons mentioned above these transaction and agency costs may be much more serious in the context of developing countries. Oommen (2010) observed that of late there is a swing towards fiscal federalism that promotes democratic decentralisation.

2.3.3. Theoretical Discourses of Fiscal Decentralisation in India: In India, the theoretical discourses of fiscal federalism and inter-governmental transfers are based on both the first and second generation fiscal federal theories. The theoretical arguments and their field reality have been explored by a number of scholars (for example Oommen, 2010, Sahasranaman, 2012; Reddy and Mohapatra, 2017) through conducting empirical studies in various parts of India. Examining the relevance of second generation theory of fiscal federalism Sahasranaman (2012) highlights that 'if there are no clear guidelines on the "hardness" of fiscal budget constraints as they pertain to the flow of funds from higher-level governments to local ones, local governments will have the tendency to go beyond their means in the expectation that they will be bailed out in times of need". So, in the context of on-going debates of strengthening own revenues of the local governments in India, the second generation theory which has argued for devolution of taxation powers to the PRIs and provision of incentives for better revenue mobilisation for meeting the hardness of the budgetary constraints can be a right way of making PRIs financially sound. Considering this, in this study we attempted to explore the financial gaps through reviewing own revenues of the PRIs and transfer from various sources of the state and central governments and argued for devolving more taxation powers to PRIs for improving their fiscal position.

2.4. Empirical Evidences

The empirical literature on finances of the local governments, in particular finances of the Rural Local Governments (RLGs) has been explored by various scholars to examine various issues associated with these studies. The outcomes of these studies have highlighted a wide array of issues which are linked with various aspects of finances of the rural local governments such as (i) status of fiscal devolution and legal provisions associated with this process, (ii) Own Revenues of the RLGs and status of taxation, (iii) Transfers of Revenue from the upper level of governments (Central and State Governments) and (iv) Overall impacts of fiscal devolution on improving service delivery system of the RLGs. In this section, it is attempted to present result of few research works and summarise the findings. In this section, it is attempted to capture the results of some of these studies and draw key issues emerged from the studies after going through the outcomes of the empirical studies conducted by various scholars in various parts of India.

2.4.1. Empirical Evidences at the Global Level: Examining the finance of the local governments, in particular the RLGs and the municipal governments in various countries in the world many scholars have highlighted their financial position and role of collecting revenues from own sources. Some of the scholars have also observed that their involvement in public sector expenditure and share of expenditure in Gross Domestic Product (GDP) is quite more than India. The RLGs are as effective vehicles for better political negotiation and achievement of better delivery of services and a means of achieving development goals have been recognised by various scholars through their studies(for example Ahmed and Bird,1998). It is argued by some scholars that the on-going process of fiscal decentralisation is both political (participation, accountability and transparency) and economic (fiscal transfers and taxation) in nature and fiscal transfers to the RLGs is the key of achieving the overall agenda of decentralisation.

2.4.2. Empirical Results in the case of India: In the case of India, many studies have been conducted to examine the status of fiscal decentralisation, inter-governmental transfers and financial position of the PRIs. On this issue, these scholars (for example Oommen, 2004; Sahasranaman, 2012; Reddy, 2012; Reddy and Mohapatra, 2017; Reddy *et.al*., 2020) have tried to examine the wider issues of political economy of decentralisation and role of the PRIs in providing goods and services to the citizens in the rural areas. On the basis of available literature and discourses associated with these literature, we have divided them into three categories on the basis of key dimensions finances of the PRIs such as (i) Own Sources of Revenues, (ii) Assignment of Revenues (iii) and Devolved Revenues. Further, it is also attempted to highlight the working of the SFCs as well as the UFCs and their role in strengthening finances of the PRIs in various states. A key argument associated with these studies that a significant component of the 73rd amendment is vesting fiscal powers to the PRIs. An important component of vesting fiscal powers is collection of various taxes from the local sources, as assigned by the states to the PRIs. Oommen (2005) underlines that "the PRIs should be made a viable part of the Indian Federal Polity if the goal of budgetary balance, equitable growth (inclusive growth) and the like were to be achieved".

However, some scholars have observed that in many cases, the issues of institutional arrangement and power devolution have unsettled which leads into confusion and conflicting scenario between the elected members and government officials of the PRIs.

Devolution of Funds to PRIs and its Implications of Strengthening PRIs: Devolution of resources to the PRIs from various sources constitutes a key agenda of fiscal devolution and inter-govermental transfers for achieving equitable development and inclusive growth. On this issue, many studies have been conducted in the recent years (for example Oommen, 2010; Sahasranaman, 2012; Reddy and Mohapatra, 2017; Reddy *et.al.*, 2020) to understand the status of fiscal devolution to PRIs in India. There are robust arguments on devolving fiscal powers to the Local Governments which can make them effective, accountable and transparent. The revenue raising power of the local governments are mainly linked with the extent of power devolved to them by the Central and the State Governments. Financial responsibility is a core component of decentralisation. The major objective of devolving revenue raising powers to the PRIs is to enable them to function as effective institutions of self-government at the local level by improving their autonomy in planning and decision making (Jena and Gupta, 2008). If local governments are to carry out decentralised functions effectively, they must have an adequate level of revenues-either raised locally or transferred from the central government- as well as the authority to make decisions about expenditures (The World Bank, 2001).

A main body of the empirical literature highlighted that PRIs are better to address the development needs of people through effective fiscal power like capacity of generating revenues and spending it for welfare of people. Oommen (2006) argues that fiscal decentralisation is the fiscal empowerment of the lower tiers of the government which involves the devolution of taxing and spending powers along with the arrangements for rectifying mismatches in resources and responsibilities. The autonomy for Panchayats in making decisions on spending priorities comes from two sources. One, the revenue generated from their own sources, and two, the total amount of fund available at their disposal (Jha, 2002). It is observed while in states such as Kerala, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Tamil Nadu, West Bengal, Sikkim, Chhattisgarh, Gujarat and Haryana have devolved desired powers to the PRIs, other states such as Odisha, Bihar and Jharkhand are lagging behind in the process (MoPR, 2012). Further, study conducted across Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu, Odisha, Punjab, Haryana, Assam and Goa also discovered that most states granted a plethora of functional responsibilities but there was no executive follow-up of granting adequate powers, staffs and additional financial resources (Fernandes, 2003).

However, after nearly three decades of enactment of the 73rd amendment act, the fiscal positions of the PRIs in different states are observed to be highly disarrayed and asymmetric in nature. Mohapatra (2013) observes that experience from different states reveals that the fiscal devolution process has more or less confined to the mere delegation of authority without devolving powers of taxation and revenue generation. There is no mechanism devised to assess or to map the potential source of revenue of the PRIs and therefore no mandatory targets have been set in this regard. Further, some scholars have attributed the factors like low level of awareness among the elected members and functionaries which has also hampered the finances of the local governments/ PRIs in various states of India.

Own Sources of Revenues of the PRIs and their Implications: The 73rd Constitutional Amendment Act, 1992 assigned the state governments with exclusive legislative authority to devolve powers to the PRIs to levy and collect taxes from various sources. The main objective behind devolving revenue raising powers to the PRIs is to enable them to function as effective institution of self-government at the local level by improving their autonomy in planning and decision making. However, studies conducted by various scholars on this issue have argued that "the own revenue sources of the PRIs in many states are too meagre". Examining the case of Tamil Nadu, Sahasranaman (2012) highlights that the own revenue collection of the Panchayats are severely hampered by low tax rates and fees, under collection and poor collection efficiencies. He has further argued that the high level of dependence on assigned and devolved revenues is a direct consequence of this. On this issue, some scholars have also observed that (for example Jena and Gupta, 2008) the PRIs have failed to exploit their statutorily designed revenue rights as a result of which their dependency on state and central governments transfers is quite high. Examining the case of Andhra Pradesh, Reddy and Sreedevi (2004) observed that low income levels in villages result in low tax revenue collection, resulting in meagre GPs income.

However, in some cases few GPs because of their own initiatives have effectively utilised the resources and they are in position to substantially finance them for service delivery. Examining the status of taxation and tax collection of PRIs in the case of Chhattisgarh, Reddy *et. al.,* (2020) have observed that "in many cases the gaps between demand and collection has increased which indicates the failure of the PRIs in effectively collecting taxes from various key sources for the purpose of revenue generation". The assigned tax rights are not fully utilised by the Panchayats and non-tax revenues is the dominant source of their own revenue (Jena and Gupta, 2008). On this issues, few scholars have suggested various ways to strengthen the own revenues of PRIs. Fox example Rajaraman (2017) has suggested that Panchayats should develop more local revenue resources, arguing that widespread local tax collection would strengthen local government in confrontation with local elites and make it less susceptible to elite capture. It is also argued that, the PRIs should have the rights to collect taxes from the private tax payers (Marjeet: 1999) which is not reflected in the tax decentralisation agenda of the various states including in the state of Telangana. Sahasranaman (2012) argues that to raise the additional resources required for investment in public services.

2.4.3. Role of Union Finance Commission in Strengthening Finances of the PRIs: Transfer to PRIs under Union Finance Commission (UFC) grants and grants for implementation of various Central Government Schemes (for agency function) constitute two key components of transfer from Central Government to the PRIs in the States. The UFCs as per Article 280 (3) (bb) and (c) have been playing a key role in shaping finances of the LBs in the State which is a key task of strengthening Cooperative Federalism and fostering democratic decentralisation. It is a key task of UFC to recommend measures needed to augment consolidated funds of the state to supplement the resources of the PRIs and ULBs in the state on the basis of the recommendations made by the finance commission of the state (Oommen, 2005). Considering this task of the UFC, it is observed that the working of UFCs (from Tenth FC to Fifteenth FC) and transfer of funds as per their recommendations during various periods have supported PRIs for delivery of public services in the rural area. The UFCs have contributed significantly towards strengthening finances if the PRIs. In the case of Telangana, the grants provided through 14th Finance Commission have helped to PRIs, in particular to the GPs to undertake various public works in the locality.

2.4.4. Working of the State Finance Commissions in States: The SFC plays a key role in strengthening the financial position of the LBs (PRIs and ULBs) and making them realise as self-reliant, independent and institution of self-government. The improvement of infrastructure at the village level like roads, drinking water supply, sanitation, street lights and waste management needs adequate financial resources and it is the constitutional obligation of the SFC to take a clear and un-biased stand as far as devolving financial resources to the PRIs for improvement of infrastructure are concerned. It is the responsibility of the SFC to reduce mismatch between expenditure responsibilities and revenue raising capability of the PRIs, through recommending transfer from state resources to these bodies. It is also important for SFC to play a decisive role in maintaining spatial equity at the inter se level transfers as it is argued that no citizen should suffer because of her choice of location or residence.

For examining the role of SFCs for strengthening the working of PRIs and expanding their fiscal base in a wider context, it is important to understand three key tasks of the SFCs viz (i) transfer of resources to PRIs, (ii) strengthening OSR of PRIs and (iii) strengthening functional devolution regime through policy reforms. The SFCs have been institutionalised to examine the fiscal relationship between the states and the local governments (the PRIs as well as Urban Local bodies) and to suggest necessary steps for improving the finances the local governments. A key part of understanding working of the SFC is to understand the issues mentioned in the Terms of Reference (ToR). The ToR of the SFC normally highlights three basic issues viz (i) distribution between the state and LBs of the net proceeds of the taxes, duties, tolls and fees leviable by the state, (ii) the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the LBs and (iii) the Grants-in-aid to the LBs from the Consolidated Funds of the State which are closely linked with the provisions laid down in Article 243 I and 243 Y of the Constitution of India.

However, a critical review of performance of SFCs in India and in states indicates that they have missed a great opportunity to contribute to the process of building a more inclusive, participatory and environmental friendly fiscal federalism via promoting decentralised governance in the country (Oommen, 2010). Examining the working of SFCs in States Alok (2008) has observed that "in fact many states are making a mockery of the constitutional provisions. On the one hand they constitute a body of people with smattering knowledge; on the other hand, they do not even consider the report. If the report is considered, very few recommendations are accepted. In the process, the crucial ones are rejected without assigning reasons". Examining the case of Andhra Pradesh and Odisha, Reddy and Mohapatra (2017) observed that in both states serious efforts have not been made for implementing the recommendations of various SFCs. In a recent study conducted by Chakraborty *et.al.*, (2018), highlights that "states also appear not to have acted promptly on the recommendations of the SFCs by not placing the Action Taken Reports (ATRs) before the State legislature in a timely manner".

In the case of Telangana, some scholars have observed that the constitution of SFC is in nascent stage since the state has been newly formed and for the first time the SFC has been formed in the state. However, the case of exploring the implications of the SFCs in Andhra Pradesh is not new. Many scholars (for example Reddy, 2003; Reddy and Sreedevi, 2004; Reddy and Mohapatra, 2017) have attempted to explore the functioning of the SFCs and have observed that the recommendations of the SFCs have not been accepted fully by the State Governments. Further, in some cases their key recommendations have not been implemented except providing some grants to the PRIs.

2.4.5. Fiscal Decentralisation to PRIs in Telangana State-A Review of Empirical Literature: In the case of Telangana (including the undivided State of Andhra Pradesh) some scholars (Reddy and Sreedevi, 2004; Reddy and Mohapatra, 2017) have tried to focus on the issues of fiscal decentralisation to PRIs and their effects on making PRIs effective. It is observed by these scholars that a significant component of the 73rd Amendment is vesting fiscal powers to the PRIs. It is observed from the Devolution Index Study Report prepared by Ministry of Panchayati Raj (2015-16) that the PRIs have been enjoying power of appropriating and collecting own revenues from various sources. The PRIs have utilised their powers of appropriating and collecting own revenues and in some cases it has been provided positive results. They have utilised the funds for various service delivery purpose like improving infrastructures in the villages.

Examining the case of four states of India including the state of Andhra Pradesh, Rajaraman and Sinha (2007) observe that functional transfer to rural local bodies is dealt within a purely qualitative manner based on administrative notifications without an associated budgetary provision. Further, though there is a separate demand for transfer of funds to PRIs under the state budget, not all transfers to PRIs take place within these grants. Examining the case of Andhra Pradesh, Reddy and Sreedevi (2004) observed that reluctance to increase the level of transfers to local governments is partially attributed to the poor revenue-raising of local bodies in Andhra Pradesh, which in practice result in their bodies being under-funded. Further, in the state, ZPPs and the MPPs depend predominately on grants from the state government which are mostly tied in nature However, in the case of GPs; the sources of finance are more diversified and large in number (Reddy, 2003).

However, in the recent period some attempts have been made to examine the fiscal decentralisation to PRIs in the state since its formation in 2014. The Devolution Index Study Report prepared by Ministry of Panchayati Raj (2015-16) shows that there are mismatches among three key components of decentralisation viz Funds, Functions and Functionaries. With regard to Fiscal Devolution, Telangana stands 16th among the 29 states as per this report.

2.5. Issues identified from the Review of Literature

Considering the outcomes of the literature, it is quite clear that a large part of literature talks about the conceptual and theoretical issues related to fiscal decentralisation and inter-governmental transfers. At the same time, the results of some studies alsodemonstrated empirical results. However, these are not quite enough to understand various key issues associated with fiscal federalism, inter-governmental transfers and finances of the PRIs in states including in the state of Telangana. In this context, the present study tries to provide some new insights through conducting a micro-study in the state of Telangana through covering five districts.

It is further observed that many studies on institutional arrangements and functioning of PRIs have been examined with an objective to understand the status of functioning of these institutions without focusing much on their financial position. Many of them have carried out to understand the implementation of legal provisions such as the 73rd amendment act, the PESA Act and state acts in various states including in the state of Telangana. However, limited attempts have been made to understand the impacts of these legal provisions in improving finances of the PRIs through conducting a field study. So, in this study we attempted to examine various legal provisions in particular the State PR Act 2018 and how these legal provisions have contributed for strengthening finances of the PRIs in the state.

Further, these empirical studies have also carried out through covering more than one state (micro study) including Telangana, with an aim to assess the state specific progress. But less attention have been paid to conduct micro studies regarding the finances of the PRIs. Further, efforts made by the PRIs for strengthening their own revenues have not been highlighted much in these studies.

Considering the above mentioned research gap, this study was designed to explore the finances of the PRIs in Telangana covering five districts of the state. Further, it was attempted to explore the initiatives of the PRIs for strengthening their own revenues in the study area. Since finances of the PRIs mainly based on the existing legal provisions and state policies, so it was attempted to examine how the state government has devolved powers and functions to the PRIs and their status of implementation in the state. And last but not the least, the formation of the First SFC was a main ground for conducting this study.

2.6. Research Questions

Considering these issues, the study was designed to address the following research issues

Firstly, how the devolution of functions, functionaries and funds to the PRIs has been implemented in the State how the PRIs are institutionalised and functioning in the state?

Secondly, what is the scenario of the finances of the PRIs in the State and what are the main sources of revenues of the PRIs?

Thirdly, what are the main sources of revenues of the PRIs in the study areas and how the PRIs have been spending their revenues?

Finally, what mechanisms need to be taken for strengthening PRIs and how financial devolution and more transfers of funds to PRIs can ensure their effective working?

CHAPTER-3

State Finances of Telangana - An Overview

3.1. Introduction

Telangana State came into existence as a State of the Indian Union on 2nd June 2014. As specified in the Andhra Pradesh Reorganisation Act, 2014, the State of Telangana was originally constituted with 10 districts which were later increased to 33. As the State Finance Commission's Award period is 2020-21 to 2024-25, it is necessary to evaluate the fiscal situation of the state during recent years and project the same for the Award period. While recommending the transfer of funds from the State Govt. to local bodies, the Commission has to keep in view the resource requirement of the State too.

The main data sources for the analysis carried out in this chapter are Telangana State Government Budget Documents, Reserve Bank of India (RBI) Study on State Finances, and Audit Reports of Comptroller and Auditor General (CAG) on State Finance. Gross State Domestic Product (GSDP) at current market prices is taken from Socio-Economic Outlook, 2017-18 / 2018-19, Government of Telangana. As financial year 2014-15, because of the "appointed day" for the new States' formation was 02 June 2014, gives ten months (2 June 2014 - 31 March 2015) picture of the financial situation of the state, the said year cannot be connected/compared to the subsequent years. The study period is very short i.e., 2015-19. While the data for the years 2015-16 and 2016-17 are accounts, 2017-18 and 2018-19 are revised and budget estimates respectively. Hence, the study used simple percentages. As the data for the year 2014-15 covers the ten months of that fiscal year, the analysis is based on rest of the years taken for the study.

As discussed above, this chapter gives fiscal status of Telangana for the year 2014-15 in one section and for rest of the years (2015-19) in another section. Last section gives the sum-up.

3.2. Structure of the State Resources

Telangana State government, like any other state government, has two sources of receipts - revenue and capital. Revenue receipts consist of own revenue (own tax revenue and non-tax revenue) and transfers from the union government (state's share of union taxes and duties and grants-in-aid).

Capital receipts comprise non-debt (miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances) and debt receipts (internal sources- market loans, borrowings from financial institutions/commercial banks) - and loans from Government of India. The 14th Finance Commission recommended that State Governments be excluded from the operations of the National Small Savings Fund (NSSF), with effect from 1 April, 2015. The involvement of the States in the NSSF scheme with effect from 1 April, 2015, therefore, may be limited solely to discharging the debt obligations already incurred by them until that date. However, this study period is confined to 2015-19. Funds available in the Public Accounts, after disbursement, are also used by the government to finance its deficit.

In this chapter, the expenditure of the state is classified into revenue, capital and loan accounts. With the recent developments, plan and non-plan classification lost its relevance.

3.3. Fiscal Situation of the State in 2014-15

The state started at the time of its formation with revenue surplus situation at Rs.369 crores and with a fiscal deficit about Rs.9410 crores and primary deficit about Rs.4183 crores (Table 3.1).

Table 3.1: Budget 2014-15: Fiscal Situation (Rs. in Crores)

Major Fiscal Indicators	Rs. Crores	As % of GSDP
Revenue Deficit/Surplus	369	0.07
Fiscal Deficit	-9410	-1.86
Primary Deficit	-4183	-0.83

Source: CAG (2017), Audit Report on State Finances for the year ended March 2016, Government of Telangana Report No.3

Total revenue receipts was Rs. 51042 crores of which state's own revenue and central transfers constituted 70 percent and 30 percent respectively (Table 3.2). Further break-up of the total revenue shows that state's own tax revenue and own non-tax revenue constituted 57 % and 13 % respectively. The share in central taxes, in total revenue, is higher than the grants-in-aid. The proportion of total revenue in GSDP constitutes 10 % of which 7 % is from state own revenue and the remaining 3 % is from central transfers (Table 3.2).

Table 3.2: Composition of Total Revenue - 2014-15 (Rs. in Crores)

Particulars	Rs.Crores	Relative share %	As % of GSDP
Revenue Receipts	51042	100	10.09
Share of Central Taxes	8189	16.04	1.62
Tax Revenue	29288	57.38	5.79
Non Tax Revenue	6447	12.63	1.27
Grants-in-aid	7118	13.95	1.41

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Of the State Own Revenue, tax revenue constitutes nearly 82 % and the remaining 18 % is from the own non tax revenue. Within the own tax revenue, about 75.5 % is constituted by revenue from the sales tax (Table 3.3) followed by state excise (9.6 %), stamp duty and registration fee (7.4 %) and tax on vehicles (5.5 %).

Table 3.3: Pattern of Own Tax Revenue - 2014-15 (Rs. in Crores)

Particulars	Rs. Crores	As % of		
		Revenue Receipts	SOR	SOTR
Revenue Receipts	51041.79	100.00	--	--
SOR	35735.12	70.01	100.00	--
SOTR	29288.38	57.38	81.96	100.00
Other Taxes on Income and Expenditure	269.18	0.53	0.753	0.92
Land Revenue	9.25	0.02	0.026	0.03
Stamps and Registration Fees	2176.90	4.26	6.092	7.43
Taxes on Immovable property other than Agricultural Land	48.70	0.10	0.136	0.17
State Excise	2807.69	5.50	7.857	9.59
Taxes on Sales, Trade etc.	22120.78	43.34	61.9	75.53
Taxes on Vehicles	1617.66	3.17	4.527	5.52
Taxes on Goods and Passengers	7.49	0.01	0.021	0.03
Taxes and Duties on Electricity	20.87	0.04	0.058	0.07
Other Taxes and Duties on Commodities and Services	209.87	0.41	0.587	0.72

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Total expenditure for the 10 months of the financial year (2 June 2014 - 31 March 2015) amounted to Rs.283277 crores which includes revenue expenditure, capital expenditure, loans and advances and disbursements (repayment of debt and public account).

As the revenue expenditure is lower than total revenue receipts by Rs.369 crores, the newly formed state started with a revenue surplus situation. In the total expenditure (excluding disbursements), the share of revenue expenditure is about 84 % followed by capital expenditure and nominal loans and advances (Table 3.4). Total expenditure is higher than total revenue by nearly 19 % points.

Table 3.4: Expenditure Pattern - 2014-15 **(Rs. in Crores)**

Sl.No.	Particulars	Rs. Crores	As % of Total Revenue	As % of Total Expenditure	As % of GSDP
1	Revenue Expenditure	50673	99.28	83.72	10.02
2	Capital Expenditure	8373	16.40	13.83	1.66
3	Loans and Advances	1483	2.91	2.45	0.29
4	Total Expenditure (1+2+3)	60529	118.59	100	11.97

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

3.4. Fiscal Situation of the State from 2015-16 to 2018-19

Table 3.5 shows fiscal situation in absolute figures during 2015-19. Total receipts have increased in 2016-17 mainly because of considerable increase in capital receipts which are mostly borrowings. Total expenditure has also increased significantly mainly because of the capital expenditure and capital disbursements (debt repayments). Reverse of the situation, in both receipts and expenditure, is shown in the revised estimates of 2017-18 (Table 3.6).

Table 3.5: Fiscal Situation: 2015-16 to 2018-19 **(Rs. in Crores)**

Sl.No.	Particulars	2015-16	2016-17	R.E 2017-18	B.E 2018-19
I	Revenue Receipts	76,133.83	82,817.96	108,148.24	130,975.11
II	Capital Receipts	21,683.29	50,832.58	34,837.17	43,507.17
III	Total Receipts (I+II)	97,817.12	133,650.54	142,985.41	174,482.28
IV	Revenue Expenditure	75,895.74	81,432.20	106,602.85	125,454.70
V	Capital Expenditure	13,590.39	33,370.57	25,447.15	33,369.10
VI	Loans and Advances	5,591.51	3,452.02	5,396.85	9,035.55
VII	Capital Disbursements	2,845.24	15,568.54	5,059.48	6,594.48
VIII	Total Expenditure	97,922.87	133,823.32	142,506.33	174,453.84
IX	Revenue Surplus	238.09	1,385.76	1,545.39	5,520.41
X	Fiscal Deficit	-18856.15	-35,280.81	-23,491.44	-29,077.07
XI	Primary Deficit	-11,298.61	-26,671.62	-12,352.83	-17,385.96

Source:(i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Table 3.6: Budget at a Glance (As % of GSDP at current prices)

Sl.No.	Particulars	2015-16	2016-17	R.E 2017-18
I	Revenue Receipts	13.51	12.90	14.76
II	Capital Receipts	3.85	7.92	4.75
III	Total Receipts (I + II)	17.36	20.82	19.52
IV	Revenue Expenditure	13.47	12.68	14.55
V	Capital Expenditure	2.41	5.20	3.47
VI	Loans and Advances	0.99	0.54	0.74
VII	Capital Disbursements	0.51	2.43	0.69
VIII	Total Expenditure	17.38	20.85	19.45
IX	Revenue Surplus	0.04	0.22	0.21
X	Fiscal Deficit	-3.35	-5.50	-3.21
XI	Primary Deficit	-2.01	-4.15	-1.69

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Composition of receipts also show that, barring 2016-17, more than 75 % is constituted by revenue receipts and about 25 % is from capital receipts (Table 3.7).

Table 3.7: Composition of Receipts (%)

Particulars	2015-16	2016-17	2017-18 RE	2018-19 BE
Revenue Receipts	77.8	62.0	75.6	75.1
Capital Receipts	22.2	38.0	24.4	74.9
Total Receipts	100	100	100	100

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Composition of revenue receipts shows that in the first two years state's own revenue constitutes around 70 %. But the share of central transfers has increased in 2017-18 mainly because of the higher estimations from grants-in-aid (Table 3.8). The relative share of state own non tax revenue estimated to decline substantially.

The major contributor of the state's own tax revenue during 2015-16, is sales tax which constituted 74.64 % (Table 3.9), followed by state excise (9.53 %), stamp duty and registration fee (nearly 7.76 %), motor vehicle tax (nearly 5.85 %) and other taxes (2 %) such as land revenue, tax on immovable property, profession tax, taxes and duties on electricity and entertainment tax etc. In 2016-17 the relative shares of state excise (because of upward revision of rates of excise duty), stamp duty and registration fee and motor vehicle tax have increased (because of upward revision of rates of fee for various services) while that of sales tax decreased mainly because of decline in the state Value Added Tax (VAT). In the revised and budget estimates of 2017-18 and 2018-19 the relative share of sales tax (including State Goods and Services Tax (GST) and GST Compensation Cess) constitutes 70 % and 72.5 % respectively. The relative share of revenue from state excise also estimated to increase in these two years.

Table 3.8: Revenue Composition (in %)

Particulars	2015-16	2016-17	2017- 8 RE	2018-19 BE
Revenue Receipts	100.00	100.00	100.00	100.00
Share in central taxes	16.22	17.96	15.18	14.66
Tax revenue	52.51	58.45	56.75	56.31
Non-tax revenue	18.93	11.81	6.10	6.85
Grants-in-aid	12.34	11.78	21.97	22.17
State own revenue	71.44	70.26	62.85	63.16
Central transfers	28.56	29.74	37.15	36.84

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Table 3.9: Composition of State Own Tax Revenue (%)

Sl. No.	State Taxes - Major Heads	As Pecentage of Sotr			
				RE	BE
		2015-16	2016-17	2017-18	2018-19
1	Taxes on Sales, Trade etc.	74.64	70.72	49.43	35.17
2	State Excise	9.53	11.53	14.67	14.37
3	Stamps and Registration Fees	7.76	7.89	7.33	6.37
4	State Goods and Services Tax (incl. GST Compensation Cess)	0	0	21.04	37.34
5	Taxes on Income and Expenditure	0.9	0.8	0.72	0.61
6	Land Revenue	0.26	0.01	0.02	0.01
7	Taxes on Vehicles	5.77	7.01	5.7	5.36
8	Other Taxes & Duties on Commodities & Services	0.77	0.69	0.57	0.01
9	Taxes on Immovable property other than Agricultural Land	0.2	0.25	0.22	0.18
10	Taxes and Duties on Electricity	0.09	1.06	0.28	0.59
11	Taxes on Goods and Passengers	0.08	0.02	0.01	0
12	Taxes and Duties on Electricity	0.09	1.06	0.28	0.59
Total State Own Tax Revenue (SOTR)		100	100	100	100

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

The state own tax revenue / GSDP is much lower than the 14th Finance Commission's Projections (Table 3.10). Even own revenue (own tax and non-tax revenue together) is less than the projections of Fourteenth Finance Commission's Tax/GSDP projections. (Table 3.10).

Table 3.10: Tax - GSDP Ratio: Projected vs. Achieved (%)

State	Projected/ Achieved	2015-16	2016-17	2017-18	2018-19	2019-20
Tax/GSDP Ratio	XIV FC Projected	9.99	10.06	10.12	10.19	10.26
	Achieved	7.10	7.54	8.38	--	--
Non-Tax /GSDP Ratio		2.56	1.52	0.90	--	--
SOR/GSDP Ratio		9.66	9.06	9.28	--	--

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

As the data for 2014-15 belong to 10 months of that financial year, growth rate of 2015-16 over 2014-15 cannot be considered to arrive at the average growth rate. Hence to arrive at the average growth rate, the study has taken 2-year average by taking year on year growth rate of 2016-17 and 2017-18 RE. The year 2018-19 is not considered as it has budget estimates.

The yearly growth rates of state own tax revenue on an average is about 24 %. As there is a decline in the absolute value of own non-tax revenue, it showed a negative growth rate (Table 3.10a). On an average, growth rate of own revenue (own tax and non-tax revenue together) is arrived at 12 %. (However, projections of SOTR and NET SOTR for the SFC Award Period are discussed in chapter 8).

Table 3.10a: Year on Year Growth Rates of Own Revenue (%)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18 RE	2018-19 BE	2-year avg (2016-18)
1	Tax Revenue (Rs.in Crores)	29288.38	39974.63	48407.81	61369.00	73751.88	54888.41
2	Non Tax Revenue (Rs.in Crores)	6446.82	14414.36	9781.71	6599.51	8973.92	8190.61
3	SOR (Rs.in Crores)	35735.20	54388.99	58189.53	67968.51	82725.80	63079.02
			growth rates(%)				
1	Tax Revenue		36.49	21.10	26.77	20.18	23.94
2	Non Tax Revenue		123.59	-32.14	-32.53	35.98	-32.34
3	SOR		52.20	6.99	16.81	21.71	11.90

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State

Regarding expenditure composition of the study shows that barring 2016-17, revenue expenditure showed consistent decline while capital expenditure showed consistent increase in the study period. Loans and advances fluctuated and have not reached the level of 2015-16 (Table 3.11).

Table 3.11: Expenditure Composition (%)

Expenditure Composition	2014-15*	2015-16	2016-17	2017-18 R.E	2018-19 B.E
Revenue Expenditure	13.45	77.51	60.85	74.81	71.91
Of which Interest Payments	1.49	7.72	6.43	7.82	6.70
Capital Expenditure	2.22	13.88	24.94	17.86	19.13
Loans and Advances	0.39	5.71	2.58	3.79	5.18
Capital Disbursements	83.93	2.91	11.63	3.55	3.78
Total Expenditure		100.00	100.00	100.00	100.00

Note: *Calculation is based on 10 months data of 2014-15

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

If only revenue, capital and loan accounts are considered, keeping aside the capital disbursements, barring 2016-17, the composition of expenditure shows that there is a consistent increase in capital expenditure and a consistent decline in revenue expenditure (Table 3.12).

Table 3.12: Expenditure Composition (Revenue+Capital+Loans & Advances) (%)

Expenditure	2014-15*	2015-16	2016-17	R.E 2017-18	B.E 2018-19
Revenue Expenditure	83.72	79.83	68.86	77.56	74.74
Capital Expenditure	13.83	14.29	28.22	18.51	19.88
Loans and Advances	2.45	5.88	2.92	3.93	5.38
Total Expenditure	100.00	100.00	100.00	100.00	100.00
Total Expenditure (Rs. Crores)	60528.88	95077.63	118254.79	137446.85	167859.36

*Calculation is based on 10 months data of 2014-15

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

The net result of receipts and expenditure is the surplus or deficit situation. The composition of fiscal deficit shows that there is a consistent increase in the revenue surplus situation and capital expenditure (Table 3.13). But fiscal deficit/ GSDP and primary deficit /GSDP fluctuated during this period. Fiscal deficit/ GSDP are much higher than the target set by Fourteenth Finance Commission (Table 3.14).

Table 3.13: Composition of Fiscal Deficit **(Rs in Crores)**

Composition of Fiscal Deficit	2014-15*	2015-16	2016-17	R.E 2017-18	B.E 2018-19
Revenue Surplus	-368.65	-238.09	-1385.76	-1545.39	-5520.41
Capital Expenditure	8372.94	13590.39	33370.57	25447.15	33369.10
Net Lending	1376.2	5503.86	3296.00	-410.33	1228.38
Total Fiscal Deficit	9410.49	18856.15	35280.81	23491.44	29077.07
Composition of Fiscal Deficit(in %)					
Revenue Surplus**	-3.92	-1.26	-3.93	-6.58	-18.99
Capital Expenditure	88.97	72.07	94.59	108.33	114.76
Net Lending	14.62	29.19	9.34	#-1.75	4.22
Total Fiscal Deficit	99.68	100.00	100.00	100.00	100.00

** - indicates Revenue Surplus, # - Loan recoveries are higher than loans advanced.

*Calculation is based on 10 months data of 2014-15

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

Table 3.14: Fiscal Situation (as % of GSDP)

Particulars	2015-16	2016-17	R.E 2017-18
Fiscal Deficit (set by 14th FC)	-2.76	-2.77	-2.77
Fiscal Deficit	-3.35	-5.50	-3.21
Revenue Surplus	0.04	0.22	0.21
Primary Deficit	-2.01	-4.15	-1.69

Note: The Award period of 14th Finance Commission is 2015-16 to 2019-20

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

About 80 % of the debt raised is spent towards the financing fiscal deficit, in other words, towards developmental activities (Table 3.15). As the net debt raised is not sufficient to fill the fiscal deficit, the state government depends on the public account. The dependence on public account was higher in the first two years than latter two years.

Table 3.15: Direction of Public Debt Spent **(Rs in Crores)**

Direction of Debt spent	2014-15*	2015-16	2016-17	RE 2017-18	BE.2018-19
Public debt raised	958049.00	17497.59	4419.28	27980.00	33200.00
Public debt repaid	316113.20	2845.24	15568.54	5059.48	6594.48
net debt raised	641935.80	14652.35	29250.54	22920.52	26605.52
Net debt as % of debt raised	67.00	83.74	65.26	81.92	80.14
fiscal deficit as % of net debt	146.60	128.96	120.62	102.49	109.29

*Calculation is based on 10 months data of 2014-15

Source: (i) Telangana State Government Budget Documents, (ii) RBI Study on State Finances

In brief the financial position sounds reasonable with revenue surplus situation in spite of the deficit and debt burden. Therefore it is necessary for the state to strengthen the financial position of the rural local bodies in keeping the spirit of democratic decentralisation in mind.

3.5. Sum-up

The revenue surplus continues to exist ever since the formation of the state. Efforts have been made for revenue augmentation. However, Tax/GSDP achieved by the state government is much lower than the projections made by the Fourteenth Finance Commission. On the contrary, fiscal deficit / GSDP of the state government are much higher than the target set by the Fourteenth Finance Commission, which is a cause of concern.

CHAPTER-4

Working of Panchayati Raj Institutions and Devolution of Powers in Telangana

4.1. Introduction

The PRIs in the state of Telangana have been working as institutions of self-government and are responsible for promoting economic development and fostering social justice in the rural areas. The institutionalisation of PRIs in the state after enactment of the 73rd Constitutional Amendment Act (CAA) is in many ways influenced the working of these institutions. It is observed that in the recent years, the PRIs have been vested with various powers for discharging their functions as institutions of self-government. Of these, fiscal powers of these institutions assume significance as these powers are key to make PRIs financially self-reliant and independent. It is observed that the since last three decades, the devolution of fiscal powers to PRIs in the Indian federal polity has witnessed extensive reforms which has paved the way for making the fiscal federalism and inter-governmental transfer strong and healthy. The 73rd CAA under its various provisions has specified the finances of the PRIs. Articles 243 I and 243 Y mandate the State Finance Commission (SFC) to review the finances of the Local Governments (PRIs and ULBs).

In this chapter, it is attempted to highlight the two important components associated with the finances of the PRIs in Telangana. In section-I, it is attempted to provide a broad overview about the institutional arrangements of the PRIs and devolutions of fiscal powers to these bodies, where as in Section-II, we have provided the devolution of funds to the PRIs from various sources in recent years. And in last section, we have summarised the discussion and provided the key trends associated with working of PRIs and transfer of funds to the bodies.

4.2. Panchayati Raj Institutions in Telangana

The state of Telangana has institutionalised the three-tier PRIs in the state. The Zilla Praja Parishads (ZPPs) at the district level, the Mandal Praja Parishads (MPPs) at the intermediate level and the Gram Panchayats (GPs) at the village level have been institutionalised as three-tier PRIs in the state. The state has 12751 Gram Panchayats (GPs), 535 MPPs and 32 ZPPs in the State (Table-4.1). Four ZPPs are part of the scheduled areas and are part of the implementation of the PESA Act. Table-4.1. presents the status of the three-tier PRIs in the State of Telangana.

4.3 Legal Provisions

In the recent period, the state government has enacted a new act otherwise known as the State PR Act, 2018. The new act has vested various powers to the PRIs inconformity with the 73rd CAA. The key features of the Act are (i) Section 43(5)- Role of the GP Secretary on Finances of the GPs (ii) Section 64 (1)- Taxation and Collection of Taxes and Fees by the GPs and (iii) Section 70(1)- Management of GP Fund by a GP. This legal provision has also vested powers to MPPs and ZPPs on the matters of finances including; (i) finances of the MPPs and powers of strengthening own revenues and (ii) finances of the ZPPs and powers of strengthening own revenues.

Table 4.1: Profile of the PRIs in Telangana

Sl. No.	PRIs	Number
1	Zilla Praja Parishad	33
2	Mandal Praja Parishad	535
3	Gram Panchayat	12,751

Source: PR & RD Department, Telangana, 2018

The new Act has fixed responsibilities and makes the Sarpanches accountable to the delivery of the services. An Ombudsman covering two to three districts with some decision making powers will oversee the functioning of the GPs and the Sarpanches, who now treat their position as a political power centre, will be accountable for efficiently discharging their duties in delivery of basic amenities or else may lose their position. Increasing the degree of accountability of the PRIs has received a prominent place in the new State Panchayati Raj Act.

4.4. Decentralised Planning and Role of the District Planning Committees (DPCs)

The State Government has also devolved power to the PRIs for formulating decentralised planning in the rural areas. The "Mana Ooru Mana Pranalika" (Our Village Our Plan) (MOMP) is being implemented to bring in peoples participation in terms of identification of needs and priorities and planning decision making at the grass root level. MOMP focused on six themes i) health and nutrition; ii) education; iii) agriculture and land use; iv) Harita Haram (increasing green cover); v) employment and livelihood; and vi) infrastructure. The District Planning Committees (DPCs) have been constituted at the district level in the State to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district.

4.5. Gram Jyothi Programme

The Government of Telangana in the recent years has launched the 'Gram Jyothi Programme' as a logical continuation of Mana Ooru-Mana Pranalika (Our Village Our Plan). The objective of Grama Jyothi is to improve the service delivery to the people in core sectors through strengthening of the Gram Panchayats by bringing together the efforts of various departments working at the Gram Panchayat level which are hitherto working independent of one another. Grama Jyothi aims synergises the developmental activities of the departments by achieving functional and financial convergence through preparation of Gram Panchayat Developmental Plans (GPDPs). The Grama Jyothi seeks to exploit the collective energy of the people by making them active partners in the development process, decision making and taking good advantage of the social capital at the village level. The goal of Grama Jyothi is to bring in much desired accountability, transparency in the functioning of public institutions working at Gram Panchayat level and make them responsive to the needs of the people.

4.6. Constitution of the Telangana State Finance Commission

The State PR Act, 2018 has provided enough space for the constitution and function of the SFC under section 244 of the Act. A historical analysis of the institutionalisation and functioning of SFCs in Telangana and Andhra Pradesh (when the state was part of AP) reveals that constituting SFCs on time was given a go bye during the long struggle for Telangana State. Data presented in Table 4.2 highlights the working periods of various SFCs in the state when the state was part of United Andhra Pradesh. It reveals that before the constitution of First SFC, there were three SFCs viz SFC-I in 1994, SFC-II in 1998 and SFC-III in 2003-04 constituted in the undivided Andhra Pradesh. While SFC-I recommended devolution of Rs.818.84 crores to PRIs, the SFC-II recommended for the devolution of Rs.1167.33 crores whereas SFC-III recommended for the devolution of Rs.1274.34 crores to the PRIs.

Table 4.2: Working of SFCs in Erstwhile Andhra Pradesh and Telangana

Sl.No	SFCs	Date of Constitution	Date of Submission of Report	Date of Submission of ATR	Period overed	Devolution Recommended to PRIs (in Crores)
1	SFC-I	22-06-1994	31-05-1997	29-11-1997	1997-2000	818.84
2	SFC-II	08-12-1998	19-08-2002	31-03-2003	2000-01 to 2004-05	1167.33
3	SFC-III	16-01-2003 & 29-12-2004	31-01-2008	07-06-2013	2005-06 to 2009-10	1274.34

Source: Commissioner, Department of Panchayat Raj, Government of Telangana, 2019

In the recent period, the Telangana First State Finance Commission (FSFC) has been constituted in the State. The formation of FSFC was notified in March, 16, 2015. However, there was a delay in constitution of the FSFC in the State. Due to delay in constituting First SFC, the funds that came to PRIs of Telangana State were based on the recommendations of the Third SFC of United Andhra Pradesh.

4.7. Functional Devolution in Telangana State

The status of functional devolution in the state observed through the Devolution Index Study conducted by Ministry of Panchayati Raj in 2015-16 presented in Table 4.3.

Table 4.3: Ranking of States in the component and aggregate indices of Devolution in Practice

State	Functions	Functionaries	Finances	IGT	Aggregate DPr*
Kerala	1	1	1	1	1
Sikkim	3	2	13	3	2
Karnataka	2	6	11	6	3
Maharashtra	11	4	2	8	4
Himachal Pradesh	14	9	3	4	5
Assam	10	3	10	13	6
Tripura	9	5	4	12	7
West Bengal	5	22	21	2	8
Madhya Pradesh	6	18	6	7	9
Uttarakhand	4	8	17	16	10
Gujarat	8	14	15	15	11
Odisha	19	12	12	9	12
Chhattisgarh	7	21	18	10	13
Rajasthan	21	7	23	11	14
Tamil Nadu	20	17	5	14	15
Haryana	18	25	9	5	16
Telangana	**13**	**16**	**16**	**18**	**17**
Uttar Pradesh	17	23	8	17	18
Punjab	16	13	20	19	19
Andhra Pradesh	12	19	14	20	20
Jharkhand	23	15	22	22	21
Bihar	22	24	19	21	22
Manipur	15	11	25	23	23
Arunachal Pradesh	24	10	7	24	24
Jammu and Kashmir	24	20	24	25	25

Source: Devolution Report, 2014-15, TISS (Tata Instituteof Social Sciences, Mumbai) and MoPR, 2015. * DPr - Devolution in Practice

It provides the ranking of the states by the index of devolution in practice and position of Telangana State on this issue. Kerala stands out as the top performing state on this index followed by Sikkim, Karnataka, and Maharashtra in that order. The important states like Uttar Pradesh, Bihar, Andhra Pradesh, Punjab is found not doing well with poor rankings.

4.8. Actual Status of Devolution of Functions in the State

Considering the above issues, this study has tried to revisit the Functional Devolution Process in the state by going through Report of the Comptroller and Auditor General of India (CAG) on Local Bodies of Telangana in 2017. It is noted that "in Telangana, out of the 29 subjects of PRIs, only 17 subjects have been transferred to PRIs by the State government. Out of that, six subjects (agriculture, drinking water supply, minor irrigation tanks, social forestry, primary and secondary education and khadi and village industries) are provided funds and only two subjects (drinking water supply and minor irrigation tanks) have functionaries. Still, there are many subjects along with either functions (12) or funds (23) or functionaries (27) yet to be transferred to PRIs in the State."

Further, during field work it was attempted to capture some trends about functional devolution to PRIs in 5 ZPPs. The results show that that in many cases the line departments have been playing a key role in the matters of promoting development programmes in the rural areas despite powers devolved to PRIs for these purposes. Further, though the state government has notified for the devolution of functions and functionaries to the PRIs, but in actual case it has not been realised fully. The line departments at the district and mandal levels are still playing a key role in implementing various development programmes.

4.9. The Status of Panchayats Extension to Scheduled Areas (PESA) Act

There are four PESA districts in Telangana - Adilabad, Khamam, Warangal (Partly) and Mahaboob Nagar (Parts of the district). There are few important Particularly Vulnerable Tribal Groups (PVTGs) in Telangana such as Gonds, Chenchus, Pradhans etc. The implementation of the PESA started in United Andhra after passing the PESA Act in 1998. However Rules for the implementation of PESA Act were prepared after a long gap of 13 long years i.e., in the year 2011. The new state of Telangana is expected to give desired push to the PESA implementation as the share ST population in the new state has gone up to more than nine percent (in United AP the share of the ST population was about 6.5%). Activating the gram sabha is crucial in the implementation of PESA as it is important institution to change the developmental concerns of the tribals.

Table 4.4: Own Revenue of the Gram Panchayats (Rs. in Crores)

S.N	Item	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
A	**Tax**									
1	Property Tax	102.63	85.49	101.66	120.66	241.52	257.67	361.74	388.76	1660.13
2	Professional Tax	0.11	0.14	0.16	0.18	0.20	0.20	0.24	0.24	1.47
3	Entertainment Tax	0.25	0.27	0.27	0.27	0.27	0.28	0.29	0.29	2.19
	Total (A)	102.99	85.90	102.09	121.11	241.99	258.15	362.27	389.29	1663.79
B	**Non-Tax**									
1	Fees/User charges22.98	22.47	23.20	24.58	25.51	25.83	25.88	25.91	196.36	
2	Any other (Auctions & Fees)	19.98	22.58	22.59	22.62	22.75	22.82	22.94	22.96	179.24
	Total (B)	**42.96**	**45.05**	**45.79**	**47.20**	**48.26**	**48.65**	**48.82**	**48.87**	**375.60**
	Grand Total (A+B)	**145.95**	**130.95**	**147.88**	**168.31**	**290.25**	**306.8**	**411.09**	**438.16**	**2039.39**

Source: Commissioner of Panchayat, Govt. of Telangana

Six and half years rule of the present government shows that not much of the pace is infused in strengthening PESA. The present government has passed the Tribal Sub Plan (TSP) and the Scheduled Caste Sub Plan (SCSP) by amending the United AP Legislation which is praise worthy. However, strengthening PESA is equally important for the tribal governance and management of their resources.

4.10. Finances of the PRIs in the State

Overview and Trends : The financial position of the PRIs and their role in exploiting own sources for revenue generation purpose in Telangana State has been discussed in this section to explore the overall financial scenario of the PRIs. The major sources of finance of the PRIs are (i) own revenue, (ii) transfers recommended by the SFC and Central Finance Commission (CFC), and (iii) transfers from central and state governments for various developmental schemes and programmes. Sources of data for the above information are mainly drawn from the Commissioner, Panchayat Raj Department, Government of Telangana. The State PR Act, 2018 confers various responsibilities on PRIs in particular in the GPs such as (i) maintenance of proper sanitation, (ii) upkeep of various plantations, (iii) ensure proper working of street lights and (iv) collection of revenue generated through taxes and non-taxes.

4.10.1. Own Revenues of the PRIs in the State: The own sources of revenue of the PRIs in the state includes (i) Own revenue generated by collection of tax (Property tax, water tax and advertisement fee etc.) and (ii) non-tax revenues (Rents from markets, shops and other properties, auction proceeds etc.,).

Data presented in Table 4.4 shows that there is steady increase in the Property Tax (of the OSR) of GPs (From 102 crores in the year 2010-11 to nearly 400 crores in the year 2017-18) as shown in table. Other taxes are not found increasing adequately. Regarding non-tax sources, Fees / User charges and Auctions and Fees are the major sources. There is still large potential to tap from various sources.

Data presented in Table 4.5 indicates the tax collections status of the PRIs in various districts in 2015-16. It indicates that in terms of demand and collections, in some districts (Adilabad, Karimanagar, Mahaboobnagar and Ranga Reddy) the position is much better, although it is not 100%.In rest of the districts (Khammam - 57% ; Nalgonda - 65% ; Nizamabad - 58% ; Warangal - 47%) the position is unsatisfactory. (Table 4.5).

Table 4.5: Demand Collection & Balances of GPs 2015-16 (Rs. in Crores)

Sl. No.	District	Total GPs	GPs with 100%Tax Collection	Demand	Collection	Balance	% of Collection
1	Adilabad	866	408	17.06	14.07	2.99	82.47
2	Karimnagar	1207	656	50.52	45.98	4.54	91.01
3	Khammam	671	76	32.53	18.68	13.85	57.42
4	Mahaboobnagar	1330	1150	29.79	28.10	1.69	94.33
5	Medak	1077	1026	38.78	34.45	4.33	88.83
6	Nalgonda	1176	193	44.50	28.72	15.78	64.54
7	Nizamabad	718	174	46.91	27.00	19.91	57.56
8	Rangareddy	688	33	113.03	82.53	30.5	73.02
9	Warangal	962	50	57.80	27.25	30.55	47.15
	Total	**8695**	**3766**	**430.92**	**306.79**	**124.13**	**71.19**

Source: Commissioner of Panchayat, Govt. of Telangana

During 2016-17, the position regarding demand and collection (D&C) of taxes has improved, (seven districts registered cent percent tax collections. Another eight districts balance between D&C is less than 10% and in 12 districts the balance ranges between15% to 30%. (Table 4.6)

4.10.2. Transfer from State Government: The PRIs have received financial assistance from the State Government under various heads like (i) transfer under Assigned Revenue, (ii) SFC Devolution, (iii) Grants-in-Aid and (iv) Schematic Grants. In this section it has been attempted to present these grants.

Transfer from Assigned Source of Revenue: The main soure of revenue of the PRIs is in the form of assigned revenue such as stamp duty and seinerege fee. Table 4.7 shows the status of transfer of assigned revenues from the State Government to the PRIs in Telangana from 2014-15 to 2017-18. It shows that the PRIs have received a large chunk of revenue from stamp duty which is 90.08% of the total assigned revenue.

Table 4.6: Demand, Collection & Balances of GPs 2016-17 (Rs. in Crores)

Sl. No.	District	Total GPs	Demand	Collection	Balance	% of Collection
1	Adilabad	243	5.47	4.43	1.04	80.99
2	Bhadradri	205	12.32	8.8	3.52	71.43
3	Jagitial	327	10.60	9.11	1.49	85.94
4	Jangaon	210	4.89	4.89	0	100.00
5	Jayashankar	274	9.04	7.28	1.76	80.53
6	Jogulamba	195	3.00	2.90	0.1	96.67
7	Kamareddy	323	14.94	11.67	3.27	78.11
8	Karimnagar	276	16.60	14.80	1.8	89.16
9	Khammam	427	22.85	22.14	0.71	96.89
10	Kumram Bheem	173	3.69	3.62	0.07	98.10
11	Mahabubabad	231	15.55	11.97	3.58	76.98
12	Mahabubnagar	468	8.23	8.21	0.02	99.76
13	Mancherial	210	7.63	7.42	0.21	97.25
14	Medak	320	7.51	7.50	0.01	99.87
15	Medchal-Malkajigiri	77	90.58	90.58	0	100.00
16	Nagarkurnool	300	6.61	5.98	0.63	90.47
17	Nalgonda	502	22.80	15.98	6.82	70.09
18	Nirmal	240	3.74	3.64	0.1	97.33
19	Nizamabad	393	31.66	24.45	7.21	77.23
20	Peddapally	208	7.88	7.81	0.07	99.11
21	Rajanna	211	5.60	5.60	0	100.00
22	Ranga Reddy	415	46.09	44.23	1.86	95.96
23	Sanga Reddy	475	25.14	25.14	0	100.00
24	Siddhipet	399	11.59	11.14	0.45	96.12
25	Suryapet	323	8.95	6.38	2.57	71.28
26	Vikarabad	367	10.61	7.49	3.12	70.59
27	Wanaparthy	185	6.50	6.50	0	100.00
28	Warangal (R)	269	11.64	8.40	3.24	72.16
29	Warangal (U)	104	6.38	5.09	1.29	79.78
30	Yadadri	334	24.40	17.95	6.45	73.57
	Total	**8684**	**462.49**	**411.10**	**51.39**	**88.89**

Source: Commissioner of Panchayat, Govt. of Telangana

Table-4.7: Transfer from Assigned Revenue Sources to PRIs (Rs.in Crores)

Types of Assigned Revenue	Years				Total
	2014-15	2015-16	2016-17	2017-18	
Professional Tax	8.27	14.84	7.42	0.00	30.53
	4.28%	6.66%	3.86%	0%	3.38%
Stamp Duty	172.69	188.53	173.18	278.38	812.78
	89.40%	90.02%	90.02%	94.76%	90.08%
Seogniorage Fee	12.20	19.36	11.79	15.38	58.73
	6.32%	8.69%	6.13%	5.24%	6.51%
Total	**193.16**	**222.73**	**192.39**	**293.76**	**902.24**
	100%	100%	100%	100%	100%

Source: Commissioner of Panchayat, Govt. of Telangana

Transfer from SFC: Regarding the transfer of grants to PRIs under SFC Grants, it is revealed from Table-4.8 that the Budget Estimate under SFC garnts during 2014-18 was Rs.313.68 Crores whereas the actual release was 95.44 crores, which is 30.43% of the total estimated amount. Except 2014-15, in all the years, there was devitaion observed in releasing amount to PRIs under this head which can be clearly observed from the data table.

Table-4.8: Transfer under SFC Grants to the PRIs (Rs in Crores)

SFC Grants	Years								Total	
	2014-15		2015-16		2016-17		2017-18			
	BE	Actual Release	BE	Actual Release	BE	Actual Release	BE	Actual Release	BE	Actual Release
SFC Grants	19.60	19.60	98.03	43.64	102.03	4.00	94.02	28.20	313.68	95.44
	-	100.00%	-	44.52%	-	3.92%	-	30%	-	30.43%

Source: Commissioner of Panchayat, Govt. of Telangana

Grant-in Aid: Table-4.9 presents the status of transfer of funds to PRIs under Grant-in-Aid from the State Government. It is revealed from the data presented in the table that the PRIs have received maximum grants under Honorarium of PRI Members which is 79.78% of the total Grant-In-Aid. However year wise fluctuation was also observed from the table.

Table-4.9: Transfer under Grant-in-Aid to the PRIs (Rs in Crores)

Grant-In-Aid	Years				Total
	2015-15	2016-17	2017-18	2018-19	
CC Charges	9.05	5.28	2.64	0.00	16.97
	43.41%	18.26%	1.55%	0%	5.44%
Honorarium	4.68	8.03	159.39	76.83	248.93
	22.45%	27.78%	93.85%	83.12%	79.78%
Per Capita Grant	7.12	15.60	7.80	15.60	46.12
	34.15%	53.96%	4.59%	16.88%	14.78%
Total	20.85	28.91	169.83	92.43	312.02
	100%	100%	100%	100%	100%

Source: Commissioner of Panchayat, Govt. of Telangana

Transfers to PRIs for Implementation of Schemes and Programmes: Table-4.10 presents the status of transfer to PRIs under various schemes from 2014-15 to 2017-18. It shows that Rs.24.24 Crores has been transferred to PRIs during a four year period with an average of just 6 crores per annum.

Table-4.10: Transfers to PRIs under various Schemes of the State Government (Rs in Crores)

Transfer under State Schemes	Years								Total	
	2014-15		2015-16		2016-17		2017-18			
	BE	Actual Release	BE	Actual Release	BE	Actual Release	BE	Actual Release	BE	Actual Release
Transfer under State Schemes	8.94	8.94	8.33	8.33	2.79	2.79	4.18	4.18	24.24	24.24
		100.00%		100.00%		100.00%		100%		100.00%

Source: Commissioner of Panchayat, Govt. of Telangana

4.10.3. Transfers from the Central Government: Regarding the status of Central Government transfers to the PRIs, it can be seen from Table-4.11 that transfer under Central Finance Commission Grants (13th and 14th Finance Commission Grants) constitute a main source of the transfers from the Central Government to PRIs. Under the head of CFC grants, the PRIs have received Rs.1009.75 Crores from 13th FC in 2014-15 where as they have received Rs.2954.82 Crores under the 14th FC.

Table-4.11: Budget Released towards All Grants to PRIs from the Central Government for the Years 2014-15 to 2017-18 (Rs in Crores)

S N	Year	13th FC	13th FC (Spl. Area)	14th FC	BRGF	BRGF (IAP)	RGSA	Total
1	2014-15	993.91	14.04	0.00	89.42	107.09	39.92	1244.38
2	2015-16	113.91	1.74	580.34	0.00	0.00	1.2	697.19
3	2016-17	0.00	0.00	908.99	0.00	0.00	26.32	935.31
4	2017-18	0.00	0.00	928.46	0.00	0.00	11.6	940.06
5	2018-19	0.00	0.00	537.03	0.00	0.00	0.00	537.03
	Total	**1107.82**	**15.78**	**2954.82**	**89.42**	**107.09**	**79.04**	**4353.97**

Source: Commissioner of Panchayat, Govt. of Telangana

4.11. Financial Position of the PRIs in the State: The overall scenario of finances of the PRIs in the state reveals that the PRIs have received funds from mainly three sources (i) Own Source Revenue, (ii) Transfer from State Government and (iii) Transfer from Central Government as per the data presented in Table-4.12. However, gap between Budget Estimates and Actual Release is observed in many cases which have affected the overall fiscal scenario of the PRIs in the state.

Table.4.12: Total Funds Flow to PRIs from Various Sources (Rs. in Crores)

Sl.No.	Description	2014-15	2015-16	2016-17	2017-18	Total
1	Own Revenues	290.25	306.80	411.09	438.16	1446.30
2	State Finance Commission Release	19.60	43.64	4.00	28.20	95.44
3	Transfer from Assigned Revenue	193.16	222.73	192.39	293.76	902.04
4	Grants in Aid	20.85	28.91	169.83	92.43	312.02
5	Transfer under State Schemes	8.94	8.33	2.79	4.18	24.24
6	Transfer under Central FC	1009.75	695.99	908.90	928.46	3543.10
7	Transfer under Central Schemes	129.34	1.20	26.32	0.00	156.86
	Grand Total	**1671.89**	**1307.60**	**1715.32**	**1785.19**	**6480.00**

Source: Commissioner of Panchayat, Govt. of Telangana

Table-4.13 presents the contribution of various sources of the revenue to the total revenue of the PRIs for the years from 2014-15 to 2017-18. It indicates that transfer from Central Government constitutes 57.10% of to the total revenue of the PRIs whereas transfer from State Government shares 20.58% of total revenue.

Table.4.13: Contribution of Various Sources to Total Funds of PRIs (In %)

Sl.No.	Description	2014-15	2015-16	2016-17	2017-18	Total
1	Own Revenues (with %)	290.25	306.80	411.09	438.16	1446.30
		17.36	23.46	23.97	24.54	22.32
2	Transfer from State Government (with %)	242.55	303.61	369.01	418.57	1333.74
		14.51	23.22	21.51	23.45	20.58
3	Transfer from Central Government (with %)	1139.09	697.19	935.22	928.46	3699.96
		68.13	53.32	54.52	52.01	57.10
	Grand Total (with %)	**1671.89**	**1307.60**	**1715.32**	**1785.19**	**6480.00**
		100.00	**100.00**	**100.00**	**100.00**	**100.00**

4.12. Expenditure Patterns of the PRIs: The pattern of expenditure of the PRIs can be broadly divided into two parts viz. (i) Revenue Expenditure and (ii) Capital Expenditure. Data presented in Table 4.14. reveals status of expenditure of various tiers of PRIs like ZPPs, MPPs and GPs in the State based on the Report of the Comptroller and Auditor General of India, 2017. It depicts that Capital Expenditure has been increased significantly from the year 2015-16.

Table 4.14: Expenditure Pattern of the PRIs (Rs.in Crore)

Types of Expenditure	2014-15	2015-16	2016-17	Total
Revenue Expenditure	134.0	615.0	528.0	1277.0
Capital Expenditure	32.0	781.0	1150.0	1963.0
Total	**166.0**	**1396.0**	**1678.0**	**3240.0**

Source: Report of the Comptroller and Auditor General of India on Local Bodies, 2017.

4.13. Summary

Workingof the PRIs and their Financial position in the state indicates that devolution of functions, functionaries and finances to the PRIs have moved forward over the years and enactment of various legal provisions have become instrumental to achieve this result. Formation of First SFC and enactment of State PR Act are the two significant decisions taken by the State Government to strengthen the PRIs in the state. Implementation of 'Our Village Our Plan' through Gram Jyoti Programme has also emerged as a key policy decision of the State Government for strengthening decentralised planning process in the state.

The PRIs are involved in providing a range of public services in the rural areas. The extent of finances that PRIs receive at various levels- Zilla Parishad (ZPPs), Mandal Parishads (MPPs) and Gram Panchayats (GPs) determine the level basic services that they would render to the local communities. However, these bodies have faced various internal and external challenges while imposing and implementing taxes and fees from their own source of revenues. Further, the GPs in the current period have been receiving funds from the Central Government as per the recommendations of the 14th Finance Commission. However, it is revealed that the gap between Budget Estimates and Actual Release is quite high in 2016-17 as presented in Table 4.7. This is also somehow true in the case of transfer of funds under Central Finance Commission (in 2014-15 and 2017-18).

CHAPTER-5

Status of Functional Devolution and Finances of PRIs in State-Insights from Field Study

5.1. Introduction

The implementation status of devolution of functions, functionaries and finances to the PRIs in the State shows various dimensions and trends which have been presented in this chapter on the basis of data collected from the five districts in the state. The nature of functions being discharged by the PRIs and the various functionaries working in these institutions have been assessed through conducting a field survey in selected locations. Similarly in the case of fiscal devolution, the PRIs have received funds from the State Government and Central Government under various heads. The own revenues have also been playing as a key source of their finance especially for the GPs which observed through this study. Considering the findings from the field study, in this chapter it is attempted to shed light on functions, functionaries and finances of the PRIs in the study area on the basis of data collected from various ZPPs, MPPs and GPs in the State.

5.2. Key Functions of the PRIs

An analysis of the major functions of ZPPs, MPPs and GPs in the study area reveals that they are involved in various activities based on the functions devolved to them in the State. Data presented in Table 5.1 reveals the main functions of the ZPPs in the state. It shows that the ZPs have been performing various functions as per functions devolved to them by the state government and these are not same for all ZPPs.

With regard to functions of the MPPs, it is revealed from the case of 10 MPPs that they are currently performing various functions as per the functions devolved to them by the state government and these are not same in all the MPPs in the state. Each MPP on an average has 8 functions with a variation from minimum 3 functions to maximum 16 functions in the MPPs. Similarly in the case of the GPs, it indicates that they are involved in various activities as per functions devolved to them by the State Government. A few key functions observed in the case of all the 20 GPs are

(i) construction and maintenance of village roads, (ii) construction and management of drinking water supply to the villages and (iii) construction of individual household toilets in the villages. Apart from these functions the GPs are also responsible for monitoring and supervision of various government programmes.

Table 5.1: Major Functions of the ZPPs (in Numbers)

Sl. No	ZPPs	Major Functions Performed by the ZPPs	
		Number of Functions Performed	Key Functions
1	Adilabad	1	Maintenance of Roads and other Public Assets
2	Karim Nagar	5	(i)Protection of public lands from encroachment, (ii) Management of traditional drinking water bodies, (iii) Maintenance of roads and other public assets, (iv) Carrying national and state level govt. programmes and schemes, (v) Providing and maintenance of ferries.
3	Warangal	6	(i) Protection of ponds and other water bodies, (ii) Maintenance of waterways and canals, (iii) Storm water drainage, (iv) Management of markets, (v) Maintenance of environmental hygiene, (vi) Maintenance of roads and other public assets.
4	Nalgonda	2	(i) Maintenance of roads and other public assets, (ii) Providing and maintenance of ferries
5	Ranga Reddy	1	(i) Maintenance of roads and other public assets.

Source: Field Survey, 2018

5.3. Functionaries of the PRIs

Devolution of functionaries is a key strategy of strengthening working of the PRIs and making them realise as institution of self-government. In the case of sampled ZPPs, MPPs and GPs, it was attempted to understand the status of functionaries working in these bodies, their key functions and various challenges faced by these functionaries while discharging their duties and responsibilities. As per this, data presented in Table 5.2 highlights about functionaries of the ZPPs. It shows that few positions have fallen vacant against sanctioned strength in all the districts which has been hampering the smooth working of the ZPPs.

Table 5.2: Functionaries of the ZPP

Sl. No	ZPPs	Status of the Functionaries		
		Sanctioned Strength	Actual Strength	Vacant Posts
1	Adilabad	66	61	5
2	Karim Nagar	67	63	4
3	Warangal	59	55	4
4	Nalgonda	65	59	6
5	Ranga Reddy	57	47	10

Source: Field Survey, 2018

The status of the functionaries of the MPPs in the MPPs presented in Table 5.3. It shows that against 158 sanctioned posts the actual strength is 128 leaving as many as 30 positions vacant in the MPPs. This will have some effect on the working of MPPs.

Table 5.3: Functionaries of the MPPs

Sl. No	ZPPs	MPPs	Status of the Functionaries		
			Sanctioned Strength	Actual Strength	Vacant Posts
1	Adilabad	Adilabad	28	23	5
2		Indervelly	11	10	1
3	Karim Nagar	V- Saidapur	12	11	1
4		Thimmapur	11	10	1
5	Warangal	Narsampet	25	17	8
6		Geesugonda	23	17	6
7	Nalgonda	Kanagal	12	11	1
8		Peddavoora	13	10	3
9	Ranga Reddy	Chevella	12	9	3
10		Manchal	11	10	1
		Total	**158**	**128**	**30**

Source: Field Survey, 2018

The position of functionaries in the sample GPs is also varied across GPs. Some GPs have just two functionaries, whereas some GPs have more than ten functionaries. Out of the total sanctioned strength of 111 across sample GPs, the actual strength is 104 and seven positions are vacant (Table 5.4).

5.4. Financial Position of the PRIs in the Study Area

The financial sources of the PRIs on the ZPPs, MPPs and the GPs are mainly derived from (i) Own Revenues, (ii) Transfer from the Central Government and State Government and (iii) Grant-in-Aids provided by the Government to these bodies. In this section an attempt has been made to explore the finances of the ZPPs, MPPs and GPs under each head of their revenue source.

Table 5.4: Functionaries of the GPs

ZPPs	MPPs	GPs	Status of the Functionaries		
			Sanctioned Strength	Actual Strength	Vacant Posts
Adilabad	Indravelly	Muthnoor	6	6	0
		Devapur	3	3	0
	Adilabad	Ankoli	3	2	1
		Landasangvi	3	3	0
Karimnagar	V.Saidapur	Amangruthi	8	7	1
		Perkapally	11	8	3
	Thimmapur	Kothapally	8	8	0
		Polampally	8	8	0
Warangal	Narsampet	Laknapalle	4	4	0
		Rajupet	4	4	0
	Geesugonda	Ookal	2	2	0
		Arepalle	4	4	0
Nalgonda	Pedavura	Nellikal	2	2	0
		Pinnavoora	2	2	0
	Kanagal	Pagidimarri	2	1	1
		G. Yadavalli	6	5	1
Ranga Reddy	Chevella	Chennavalli	7	7	0
		Devarampally	3	3	0
	Manchal	Nomala	10	10	0
		Japal	15	15	0
Total			**111**	**104**	**7**

Source: Field Survey, 2018

5.4.1. Own Revenues of the PRIs: The PRIs in different level viz ZPPs, MPPs and GPs have been enjoying powers of levying and collecting taxes and fees from various sources. In the case of ZPPs, they have only power of collecting Non-Tax Revenues from various sources available at their disposal. With regard to non-tax revenues of the ZPPs, these bodies have vested power to raise revenue through collecting fees and rents.

Data presented in Table 5.5 shows own revenues of the ZPPs of the State. It shows that the average own revenue of the Five ZPPs is (i) Adilabad Rs. 135.15 Lakhs, (ii) Karimnagar: Rs.18.02 Lakhs, (iii) Warangal: Rs.14.73 Lakhs, (iv) Nalgonda: Rs.84.48 Lakhs and Ranga Reddy: Rs.0.53 Lakhs. It shows that own revenue of Adilabad ZPP is relatively better than others because of income from Seigniorage Fees and Rents.

Table 5.5 Own Revenues of the ZPP in Study Area (Rs. in Lakhs)

ZPPs	2014-15	2015-16	2016-17	2017-18	Total	Average
Adilabad	58.50	113.43	233.52	NA	405.45	135.15
Karimnagar	19.19	17.09	17.96	17.84	72.08	18.02
Warangal	14.08	15.54	14.58	NA	44.20	14.73
Nalgonda	142.34	98.58	37.02	60.00	337.94	84.48
Ranga Reddy	1.28	0.54	0.27	0.03	2.12	0.53
Total	**235.39**	**245.18**	**303.35**	**77.87**	**861.79**	**215.44**

Source: Field Survey, 2018

Data presented in Table 5.6 highlights the Own Revenues of the ZPPs located in PESA and Non-PESA areas of the State. It presents that the ZPPs (Adilabad and Warangal) in PESA Area have collected more revenues than the ZPPs (Karimnagar, Nalgonda and Ranga Reddy) in the Non-PESA Areas.

Table 5.6: Distribution of Own Revenues of ZPPs in PESA and Non-PESA Areas (Rs.in Lakhs)

Year	PESA	Non-PESA	Total
2014-15	72.58	162.81	235.39
2015-16	128.97	116.21	245.18
2016-17	248.10	77.87	325.97
2017-18	0.00	55.25	55.25
Total	**449.65**	**412.14**	**861.79**

Source: Field Survey, 2018

Own revenue of MPPs in the study area mainly based on non-tax revenues or fees collected from various sources. It is observed through the data collected from the 10 MPPs that the own revenues of the MPPs is quite meager. Even in many cases it is nil. Data related with this shows that only in 1 MPP of Warangal has own source of revenue (which is Rs.8000.00 only). (Table 5.7)

A key component of the revenues of the GPs in the study area is mainly based on Own Revenues (Taxes & Fees) such as (i) House Tax, (ii) Water Fees (new connection/ monthly fees), (iii) Fees for issuing Birth and Death Certificates and other fees (income from leasing out assets). It was observed through this study that House Tax contributed significantly to the Own Revenues of the GPs in the study area (20 GPs). It is observed that House Tax Collection has been increased steadily from the year 2014 (after creation of new state).

Table 5.7: Own Revenues of the MPPs in Study Area from 2014-15 to 2017-18

(in Rs)

Sl.No.	District	Mandals	Total
1	Adilabad	2	0.00
2	Karimnagar	2	0.00
3	Warangal	2	8000.00
4	Nalgonda	2	0.00
5	Ranga Reddy	2	0.00
	Total	**10**	**8000.00**

Source: Field Survey, 2018

Table 5.8 summarises the status of the Own Sources of Revenues of the 20 GPs during a period of four years (2014-15 to 2017-18) with a district wise distribution. It also gives the break-up of OSR into (i) House Tax and (ii) Others (other taxes) on the basis of data gathered from the 20 GPs of the state. It shows that revenues collected from the House Tax constitute a key source of Own Revenues of the GPs in the study area.

Data presented in Table 5.9 revealed the distribution of own revenues of the GPs in PESA and Non-PESA areas of the state. It indicates that property tax has become a major source of revenue of the GPs in both the areas. However, taxes from other sources are quite meagre in PESA area than Non-PESA area.

Table 5.8: Own Revenues of the GPs in Study Area (Rs. in Lakhs)

ZPPs	Number of GPs	Items	2014-15	2015-16	2016-17	2017-18	2014-15 2017-18	Total to (H+O)
Adilabad	4	House Tax	3.71	2.89	3.68	4.35	14.63	21.30
		Others	6.66	0.00	0.00	0.00	6.66	
Karimnagar	4	House Tax	3.98	5.63	5.47	7.50	22.58	45.87
		Others	4.99	6.25	5.02	7.04	23.29	
Warangal	4	House Tax	2.43	3.11	6.41	4.88	16.83	16.85
		Others	0.00	0.00	0.02	0.00	0.02	
Nalgonda	4	House Tax	9.46	8.56	18.87	8.27	45.16	68.11
		Others	6.40	4.26	8.37	3.93	22.95	
Ranga Reddy	4	House Tax	4.62	6.63	41.76	11.59	64.61	70.65
		Others	0.42	2.31	1.51	1.80	6.03	
Total	20	House Tax	24.20	26.82	76.19	36.61	163.82	222.77
		Others	18.46	12.82	14.91	12.76	58.96	

Source: Field Survey, 2018.

Table 5.9: Distribution of Own Revenues of GPs in PESA and Non-PESA Areas (Rs.in Lakhs)

Year	PESA		Non-PESA		Total	
	Property Tax	Others	Property Tax	Others	Property Tax	Others
2014-15	6.14	6.66	18.06	11.81	24.20	18.47
2015-16	6.00	0.00	20.82	12.82	26.82	12.82
2016-17	10.09	0.02	66.10	14.90	76.19	14.92
2017-18	9.23	0.00	27.36	12.77	36.59	12.77
Total	**31.46**	**6.68**	**132.34**	**52.30**	**163.80**	**58.98**

Source: Field Survey, 2018.

5.4.2. Assigned Revenues of the PRIs: Assigned Revenues are those revenues that are directly due to PRIs but are collected by the state government to ensure greater ease and efficiency of collection. In the case of five ZPPs, it was observed that two major categories of revenues are part of Assigned Revenues viz (i) Stamp Duty, and (ii) Seignorage grants. Under these two heads, the ZPPs have received revenues through the state government. Similarly, in the case of MPPs, the Assigned Revenues are (i) Surcharge on Stamp Duty (ii) Entertainment Tax, (iii) Water Tax, (iv) and Profession

Tax. With regard to the Assigned Revenues, it was observed that a major source of this is (i) Surcharge on Stamp Duty and (ii) Sand Seionarage.

5.4.3. Transfer from State and Central Government: Data collected from selected ZPPs, MPPs and GPs shows that they have received funds from various sources of State and Central Governments during the periods from 2014-15 to 2017-18. Tier wise analysis of transfer of funds from State and Central Governments presents in this section with year wise distribution.

In the case of ZPPs it was observed that they have received maximum funds from Central Government than State Government. Table 5.10 and Table 5.11 present the status of transfer of revenues (including assigned and transfer revenues) to the ZPPs from the State Government and Central Government over a period of four years (2014-15 to 2017-18). In the case of transfer from State Government, the ZPPs have received Rs.18115.46 Lakhs with average amount of Rs. 4528.86 lakhs during this period.

Table 5.10: Status of Transfer of Grants to the ZPPs from the State Government (Including Assigned Revenue) (Rs. in Lakhs)

ZPPs	2014-15	2015-16	2016-17	2017-18	Total	Average Transfer
Adilabad	566.60	796.00	991.58	NA	2354.18	784.73
Karimnagar	633.82	868.13	683.56	205.19	2390.70	597.67
Warangal	389.93	339.85	720.02	325.19	1774.99	443.74
Nalgonda	394.01	723.03	429.04	883.05	2429.13	607.28
Ranga Reddy	1541.95	1919.54	620.26	5084.71	9166.46	2291.61
Total	3526.31	4646.55	3444.46	6498.14	18115.46	4528.86

Source: Field Survey, 2018

Table 5.11 presents the status of transfer of grants to the ZPPs from the Central Government over a period of four years (2014-15 to 2017-18). It shows that the ZPPs have received funds under two heads that is (i) Transfer to ZPPs under 13th Finance Commission Grants and (ii) Transfer to ZPPs under Backward Region Grant Fund (BRGF). It can be seen from the table that till ZPPs are receiving the central grants (13th Finance Commission Grants) their position is better, once 14th Finance Commission has started sending grants only to GPs and not ZPPs and MPPs, their financial position has considerably weakened. Added to this BRGF grants have also been abolished by the central government. On the whole, from the year 2016-17, ZPPs have received lowest level grants from Central Government.

Table 5.11: Status of Transfer to ZPPs from the Central Government
(Rs. in Lakhs)

ZPPs	2014-15	2015-16	2016-17	2017-18	Total	Average Transfer
Adilabad	4791.22	225.18	100.00	NA	5116.40	1279.10
Karimnagar	4824.72	286.09	638.38	NA	5749.19	1437.30
Warangal	2165.96	2079.83	NA	NA	4245.79	1061.45
Nalgonda	3177.10	292.01	NA	NA	3469.11	867.28
Ranga Reddy	2362.46	220.62	NA	NA	2583.08	645.77
Total	**3464.29**	**3103.73**	**738.38**	**N.A**	**21163.60**	**5290.90**

Key. NA; Not Available, *Source:* Field Survey, 2018

Table 5.12: Status of transfers to MPPs from the State Government in the Study Area **(Rs. in Lakhs)**

ZPPs	Mandals	2014-15	2015-16	2016-17	2017-18	Total	Sources
Adilabad	Adilabad	62.85	53.28	36.4	61.83	214.36	SFC, Other Receipts
	Indervelly	9.59	45.66	46.34	43.92	145.51	SFC, State Transfer
Karimnagar	V- Saidapur	0.47	0.94	0	0.39	1.8	SFC
	Thimmapur	21.03	131.78	163.78	104.89	421.48	SFC, State Transfer
Warangal	Narsampet	112.58	123.30	154.19	156.04	546.11	SFC, State Transfer
	Geesugonda	24.00	1.12	2.02	9.44	36.58	SFC, Seignorage
Nalgonda	Kanagal	18.93	2.76	0.00	0.70	22.39	SFC, State Transfer
	Peddavoora	4.91	4.56	1.22	9.08	19.77	SFC, Per Capita, Stamp Duty
Ranga Reddy	Chevella	31.39	72.65	71.92	145.77	321.73	SFC, Per Capita, State Transfer
	Manchal	101.96	96.7	108.87	173.52	481.05	SFC, State Transfer
	All	387.71	532.75	584.74	705.58	2210.78	SFC, Stamp Duty, Per Capita, Other Receipts

Source: Field Survey, 2018.

In the case of MPPs, transfer from State Government under SFC Grants, per capita Grants and seinorage grants constitute a main source of Revenue under State Grant. Transfer from the Central Government under (i) Schemes like BRGF (ii) Grants under 13th Finance Commission and (iii) Grants under MPLAD constitute a main source of Revenue under Central Grant. The MPPs have also received funds from the MPLADS and MLALADS during 2014-15 to 2017-18 which was observed through the study. Table 5.12 presents the status of transfer from State Government.

Table 5.13 shows the status of Transfers from the Central Government under various heads like 13th Finance Commission Grant, MPLAD and BRGF over a period of four years (2014-15 to 2017-18) in 10 MPPs of Telangana State.

Table 5.13: Status of Transfer to Sampled MPPs from the Central Government (Rs. in Lakhs)

ZPPs	MPPs	2014-15	2015-16	2016-17	2017-18	Total
Adilabad	Adilabad	0.00	0.00	0.00	0.00	0.00
	Indervelly	59.28	17.21	13.51	19.29	109.29
Karimnagar	V- Saidapur	12.66	10.46	0.00	0.00	23.12
	Thimmapur	25.61	40.18	0.00	0.00	65.79
Warangal	Narsampet	14.80	10.21	41.17	0.66	66.84
	Geesugonda	17.70	6.63	0.00	0.00	24.33
Nalgonda	Kanagal	18.94	22.10	0.00	0.00	41.04
	Peddavoora	16.28	7.50	15.00	0	38.78
Ranga Reddy	Chevella	40.72	198.58	39.54	40.39	319.23
	Manchal	24.24	81.59	13.66	0.29	119.78
	Total	**230.23**	**394.46**	**122.88**	**60.63**	**808.20**

Source: Field Survey, 2018

The GPs like ZPPs and MPPs have received funds from the State and Central Governments from various sources. The transfers from State Government include (i) SFC Grants and (ii) Per Capita Grants. In some cases the GPs have received funds for implementation of various development programmes like (i) Construction and Maintenance of Rural Roads and (ii) Providing Drinking Water Supply to Villages and Households. Table 5.14 presents the status of transfer of funds to the GPs in the state. (Table 5.14)

Table 5.14: Status of Transfer to GPs from the State Government (Rs in Lakhs)

ZPPs	MPPs	Number of GPs	2014-15	2015-16	2016-17	2017-18	Total
Adilabad	Adilabad	2	0.13	0.27	0.00	0.32	0.72
	Indervelly	2	0.35	0.83	0.26	0.66	2.1
Karimnagar	V- Saidapur	2	0.37	5.15	3.94	3.71	13.20
	Thimmapur	2	4.22	11.93	15.27	10.53	41.95
Warangal	Narsampet	2	1.71	1.10	0.67	1.99	5.47
	Geesugonda	2	0.36	0.40	0.00	0.54	1.32
Nalgonda	Kanagal	2	0.31	0.51	0.51	0.50	1.83
	Peddavoora	2	0.35	0.14	0.65	0.08	1.23
Ranga Reddy	Chevella	2	0.74	0.82	0.58	1.2	3.35
	Manchal	2	0.49	0.57	0.40	0.61	2.07
	Total	**20**	**9.03**	**21.72**	**22.3**	**20.14**	**73.25**

Source: Field Survey, 2018.

Apart from receiving funds from the State Government, the grants received from Central Government under the 14th FC constitute a main source of Revenue of the GPs in the Study Area. It was observed through this study that funds received under 14th FC has helped to improve the fiscal viability of the GPs as a result of which the GPs have become able to delivery services in an efficient manner. Table-5.15 shows the status of transfer from the Central Government to the GPs in the study area.

Table 5.15: Status of Transfer to GPs from the Central Government (Rs in Lakhs)

ZPPs	MPPs	Number of GPs	2014-15	2015-16	2016-17	2017-18	Total
Adilabad	Adilabad	2	1.17	16.02	24.51	35.55	77.25
	Indervelly	2	19.45	9.17	22.72	19.95	71.30
Karimnagar	V- Saidapur	2	12.36	8.26	19.44	13.39	53.45
	Thimmapur	2	6.84	11.81	17.99	19.00	55.64
Warangal	Narsampet	2	21.62	16.74	21.03	21.58	80.97
	Geesugonda	2	12.45	12.54	21.68	17.87	64.54
Nalgonda	Kanagal	2	9.02	15.62	26.20	24.00	74.85
	Peddavoora	2	8.98	7.15	15.09	10.06	41.27
Ranga Reddy	Chevella	2	7.29	5.48	11.05	10.94	34.76
	Manchal	2	5.96	8.37	12.49	13.58	40.40
	Total	**20**	**105.13**	**111.16**	**192.20**	**185.92**	**594.42**

Source: Field Survey, 2018

5.4.4. Financial Scenario of the PRIs via-a-vis Own Revenues: The total revenue received by the ZPPs during the period from 2014-15 to 2017-18 is Rs.40,140.82 Lakhs which is shown from Table 5.16. The position of own revenue is Rs.861.79 lakhs which is only 2.15% of the total revenue of the ZPPs. The contribution of Own Sources of Revenues to the total revenue of the ZPPs indicates that in Adilabad it is 5.14%, in Karimnagar it is 0.88%, in Warangal it is 0.73%, in Nalgonda it is 5.42%, and in Ranga Reddy it is 0.02%. It indicates that own revenue constitutes only 2.15% of their total revenue as a result of which these institutions are heavily dependent on Government's transfers (98%).

In the case of MPPs, total Revenue received by them for the years from 2014-15 to 2017-18 is Rs.3019.26 Lakhs. However, during this period, the position of own revenue was quite negligible as per data presented in the Table 5.17. So, it can be concluded that the contribution of own revenues to the total revenues of the MPPs is zero or nil. It is otherwise indicates that the MPPs are totally dependent on the transfer from the State and Central Governments.

Table 5.16: Position of Own Revenues to the Total Revenues of the Sampled ZPPs (in%)

ZPPs	Finances of ZPPs		% of Own Revenue to total Revenue	Rate of Dependency on Government's' Transfer (%)
	Own Revenue	Total Revenue		
Adilabad	405.45	7876.03	5.15	95
Karimnagar	72.08	8211.97	0.88	99
Warangal	44.20	6064.98	0.73	99
Nalgonda	337.94	6236.18	5.42	95.5
Ranga Reddy	2.12	11751.66	0.02	99
Total	**861.79**	**40140.82**	**2.15**	**97.85**

Source: Field Survey, 2018

Overall financial position of the GPs (total revenue received by the GPs) show that transfer from the Central Government under 13th and 14th Finance Commission forms a major source of finances of the GPs in the state. However, own revenues of the GPs are also quite better than ZPPs and MPPs since these bodies have been enjoying powers of levying and collection of various taxes and fees. Table-5.18 highlights the overall fiscal scenario of the GPs and position of own revenues to the total revenues in 20 GPs. The overall fiscal scenario shows that because of better own revenues, the GPs are less dependent on the transfers of State and Central governments' resources.

Table 5.17: Finances of the Sampled MPPs and Position of Own Revenues

(Rs. in Lakhs)

ZPPs	No of MPPs	Items	2014-15	2015-16	2016-17	2017-18	Total	Total Revenues of MPPs
Adilabad	2	Own Revenue	0.00	0.00	0.00	0.00	0.00	
		State Transfer (including SFC)	72.44	98.94	82.74	105.75	359.87	469.16
		Central Transfer (including CFC)	59.28	17.21	13.51	19.29	109.29	
		Sub-Total	131.72	116.15	96.25	125.04	469.16	
Karimnagar	2	Own Revenue	0.00	0.00	0.00	0.00	0.00	
		State Transfer (including SFC)	21.5	132.72	163.78	105.28	423.28	512.19
		Central Transfer (including CFC)	38.27	50.64	0.00	0.00	88.91	
		Sub-Total	59.77	183.36	163.78	105.28	512.19	
Warangal	2	Own Revenue	0.00	0.00	0.08	0.00	0.08	
		State Transfer (including SFC)	136.58	124.42	156.21	165.48	582.69	673.94
		Central Transfer (including CFC)	32.5	16.84	41.17	0.66	91.17	
		Sub-Total	169.08	141.26	197.46	166.14	673.94	
Nalgonda	2	Own Revenue	0.00	0.00	0.00	0.00	0.00	
		State Transfer (including SFC)	23.84	7.32	1.22	9.78	42.16	121.98
		Central Transfer (including CFC)	35.22	29.6	15.00	0.00	79.82	
		Sub-Total	59.06	36.92	16.22	9.78	121.98	
Ranga Reddy	2	Own Revenue	0.00	0.00	0.00	0.00	0.00	
		State Transfer (including SFC)	133.55	169.35	180.79	319.29	802.98	1241.99
		Central Transfer (including CFC)	64.96	280.17	53.20	40.68	439.01	
		Sub-Total	198.51	449.52	233.99	359.97	1241.99	
		Total	**618.14**	**927.21**	**707.7**	**766.21**	**3019.26**	**3019.26**

Source: Field Survey, 2018

Table 5.18: Own Revenue Position of GPs to the Total Revenues (in%)

ZPPs	Number of GPs	Finances of GPs (in lakhs)		% of Own Revenue to total Revenue	Rate of Dependency on Government's Transfer (%)
		Own Revenue	Total Revenue		
Adilabad	4	21.30	172.12	12.28	88.00
Karimnagar	4	45.87	210.08	21.83	78.00
Warangal	4	16.85	169.15	9.96	90.00
Nalgonda	4	68.11	187.28	36.37	64.00
Ranga Reddy	4	39.57	120.15	32.93	66.00
Total	**20**	**191.70**	**858.78**	**22.32**	**78.00**

Source: Field Survey, 2018

5.5. Expenditure of the PRIs

The Expenditure pattern of the sampled ZPPs, MPPs and GPs indicate that these are mainly based on (i) Establishment or Administrative Expenditure (ii) Expenditure related to Maintenance of Works, (iii) Capital Expenditure, (iv) Welfare Expenditure and (v) Expenditure for Education. In this section an attempt has been made to analyse the expenditure details of the ZPPs during 2014-15 to 2017-18 under the above mentioned heads.

Data presented in Table 5.19 shows the pattern of expenditure of the ZPPs for the year from 2014-15 to 2017-18. It shows Warangal ZPP has spent highest revenue than others during this period followed by Ranga Reddy (Rs.10923.36 Lakhs), Adilabad (Rs.5831.25 Lakhs), Karim Nagar (Rs.6428.95 Lakhs) and Nalgonda (Rs.440.23 Lakhs) respectively. Similarly, low level of expenditure has observed in the case of Nalgonda ZPP. On Table 5.20, we have presented a comparative statement between the receipts and expenditure of the ZPPs. It shows that in the case of Warangal, the actual expenditure is 325% than total revenue receipts of the ZPP which is quite high and unrealistic. Similarly, in the case of Nalgonda, the ZPP has spent only 7% of its total receipts in four years.

Table 5.19: Expenditure pattern of the Sampled ZPPs (Rs in Lakhs)

Sl.No	Year	Adilabad	Karimnagar	Warangal	Nalgonda	Ranga Reddy	Total
1	2014-15	2266.07	1427.62	5512.97	151.88	4474.99	13833.53
		38.36	22.21	27.97	34.49	40.97	31.92
2	2015-16	1952.21	1639.60	6965.61	245.83	3669.22	14472.47
		33.48	25.50	35.34	55.83	33.59	33.40
3	2016-17	882.61	1599.74	4111.12	42.62	1355.20	7991.29
		15.14	24.88	20.86	9.68	12.41	18.44
4	2017-18	730.36	1761.99	3120.79	0.00	1423.95	7037.09
		12.52	27.41	15.83	0.00	13.04	16.24
	Total	**5831.25**	**6428.95**	**19710.49**	**440.33**	**10923.36**	**43334.38**
		100.00	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Field Survey, 2018

Table 5.20: Receipts and Expenditure Pattern of the Sampled ZPPs
(Rs in Lakhs)

ZPPs	Finances of ZPPs		
	Total Receipts	Total Expenditure	% of Expenditure to Receipts
Adilabad	7876.03	5831.25	74.04
Karimnagar	8211.97	6428.95	78.29
Warangal	6064.98	19710.49	324.99
Nalgonda	6236.18	440.33	7.06
Ranga Reddy	11751.66	10923.36	92.95
Total	**40140.82**	**43334.38**	**107.96**

Source: Field Survey, 2018

The Expenditure Pattern of the MPPs like ZPPs of the state are mainly based on (i) Establishment or Administrative Expenditure (ii) Expenditure related to Maintenance of Works, (iii) Capital Expenditure, and (iv) other Expenditure. Table 5.21 presents the status of Expenditure of the 10 MPPs during 2014-15 to 2017-18.

Table 5.21: Expenditure of the Sampled MPPs (Rs. in Lakhs)

ZPPs	Mandals	2014-15	2015-16	2016-17	2017-18	Total	Average
Adilabad	Adilabad	68.97	28.76	40.52	33.46	171.71	42.92
	Indervelly	43.86	59.95	51.64	47.64	203.09	50.77
Karimnagar	V- Saidapur	107.25	115.59	115.88	285.51	624.23	156.05
	Thimmapur	138.70	99.32	172.33	150.83	561.18	140.30
Warangal	Narsampet	133.48	147.55	201.85	154.23	637.11	159.28
	Geesugonda	36.13	32.09	14.38	3.00	85.60	21.40
Nalgonda	Kanagal	1.31	20.47	3.71	5.07	30.56	7.64
	Peddavoora	9.34	8.29	9.85	4.23	31.71	7.92
Ranga Reddy	Chevella	119.44	94.73	153.05	189.44	556.66	139.16
	Manchal	22.78	15.66	16.57	5.43	60.44	15.11
	Total	**681.26**	**622.41**	**779.78**	**878.84**	**2962.29**	**740.57**

Source: Field Survey, 2018

Table 5.22: Expenditure Pattern of the GPs in Study Area (Rs in Lakhs)

ZPPs	GPs	2014-15	2015-16	2016-17	2017-18	Total	Average
Adilabad	Devapur	5.56	6.24	7.07	5.89	24.76	6.19
	Ankolli	16.21	14.46	12.55	21.87	65.09	16.27
	Landa Sanghvi	4.91	5.08	5.67	5.72	21.38	5.34
Karimnagar	Kothapally	7.27	9.04	9.95	8.99	35.25	8.81
	Polampally	8.40	8.30	10.10	9.56	36.36	9.09
Warangal	Rajupet	6.63	7.88	8.00	9.98	32.49	8.12
Nalgonda	Nellikal	8.92	7.58	6.95	10.68	34.13	8.53
	Pinnavora	3.54	2.87	4.50	1.94	12.85	3.21
Ranga Reddy	Devarampally	13.22	15.99	16.03	17.36	62.60	15.65
	Japal	3.11	3.14	7.06	2.99	16.30	4.07
	Total	**77.77**	**80.58**	**87.88**	**94.98**	**341.21**	**85.30**

Source: Field Survey, 2018

A detailed picture of the expenditure details of the sample GPs in study area indicate that large proportion of it went to executing the schemes transferred by the central government and the state government followed by maintenance of road/buildings, expenditure on salary and management/maintenance of assets. The expenditure on welfare activities was found meagre. Table 5.22 presents the Expenditure Pattern of 10 GPs of the state.

5.6. Summary

The overall scenario of finances of the PRIs in the study area shows that the revenues of the PRIs at all levels have been fluctuating during different periods of time because of various reasons like (i) transfers from State and Central Government to these bodies and (ii) poor own sources of revenues and failure of PRIs to utilise these sources. In some cases, the GPs have faced various internal and external challenges while imposing and implementing taxes and fees from their own source of revenues. This disturbed the overall revenue generation agenda of the PRIs in the state. The GPs in the current period have been receiving funds from the Central Government as per the recommendations of the 14th Finance Commission. However, there is no fund provision made for the MPPs and the ZPPs under the 14th FC. Therefore funds transfer to ZPPs and MPPs from the Central Government has been reduced significantly.

CHAPTER-6

Emerging Issues and Policy Recommendations

6.1. Introduction

The study was conducted to capture the financial position of the PRIs in the state and status of own revenues of these bodies for the years from 2014-15 to 2017-18. It was also to understand financial position of the state and to what extent the state government can devolve state's resources to the PRIs for a period from 2020-21 to 2024-25 as per the recommendations of the First State Finance Commission of Telangana State. In this connection it was also attempted to assess the requirement of funds for the PRIs for a five years period starting from 2020-21 to 2024-25 through analysing macro-level trends of funds flow to PRIs (as presented in Chapter-4) and how the financial scenario of the PRIs has helped them to manage their development expenditure effectively through conducting field study in selected locations (as presented in Chapter-5). Considering all these issues on the basis of macro and micro level data analysis, in this chapter we have attempted to present two broad issues associated with the finances of PRIs in Telangana State viz. (i) the financial needs of the PRIs to meet their development expenditure and (ii) role of the State Government to address the financial needs of the PRIs as per recommendations of the SFC. While focusing on these issues, it is attempted to summarise the key trends emerged from the study and suggested some measures to address the finances of the PRIs for strengthening their works as institution of self-government.

6.2. Financial Needs of the PRIs in the State

The State Finance Commission's primary task is to make an assessment of the financial resources of the state as well as rural and urban local bodies and make recommendations for devolution of funds from the former to the latter. An analysis of the finances of the local bodies is an important step in the estimation of the revenue gap which the financial package recommended by the Commission is meant to meet.

6.2.1 Economy of the State and Projection of SOTR: It is observed from the Socio-Economic Survey, 2018-19 that the growth of GSDP of Telangana has been increasing from 6.8% in 2013-14 to 10.4% in 2017-18. The **total receipts (excluding borrowings)** for 2018-19 were estimated to be Rs.1,41,282 crore, an increase of 22.8% as compared to the revised estimates of 2017-18. In 2017-18, total receipts (excluding borrowings) fell short of the budgeted estimate by Rs.4,935 crore. It is on this basis, this study p rojected that the economy of the state will grow. The budget estimates a revenue surplus of Rs.5,520 crore (or 0.7% of GSDP) in 2018-19. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The estimate indicates that the state is expected to meet the target of eliminating revenue deficit, as prescribed by the 14th Finance Commission.

Data presented in Table 6.1 indicates growth rates of State Own Tax Revenue (SOTR) for the years from 2014-15 to 2018-19.

Table 6.1: Net SOTR and its Growth Rates

	2014-15	2015-16	2016-17	2017-18 RE	2018-19 BE	2016-18 2 year avgv
Net SOTR (Rs. Cr)	28792.81	39231.82	47629.67	60652.18	72879.75	54140.92
Year on Year Growth Rate (%)		36.26	21.41	27.34	20.16	24.37

Source: Authors' own calculation on the basis of data presented by the Department of Finance, Government of Telangana and State Budget Data.

Considering this trend, in Table 6.2 the study applied 2 years average growth rate of SOTR and projected figures of the Net SOTR for the SFC award period starting from 2020-21 to 2024-25. Considering requirement of funds of a GP as presented in Table 6.7, the study recommends 6.7% of projected Net SOTR to the RLBs.

Table 6.2: Projections of Net SOTR for the Award Period (Rs. in Crores)

	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Net SOTR based on 2- year Average	116688.85	145129.94	180503.1	224497.92	279215.79	946035.60
Requirement of PRIs	7083.01	8809.39	10956.54	13627.02	16902.59	57378.55
As % of Net SOTR	6.07	6.07	6.07	6.07	6.07	6.07

Source: Authors' own calculation as per Table 6.1 and 6.7.

6.2.2. Total Fund Flow to PRIs in the State: In order to get the actual picture of collective funds flow to PRIs from various sources including own revenues of the PRIs, we have considered the data provided by the State PR and RD department, Government of Telangana as presented in Chapter-4. If we examine the total funds flow to PRIs from various sources, it is ascertained that transfer from Central Government constitute 57.10% followed by OSR (22.32%) and transfer from State Government which is 20.58%. (Table 6.3).

Table-6.3: Contribution of Various Sources to Total Funds of PRIs (In %)

SNo.	Description	2014-15	2015-16	2016-17	2017-18	Total
1	Own Revenues	290.25	306.80	411.09	438.16	1446.30
	(with %)	17.36	23.46	23.97	24.54	22.32
2	Transfer from State	242.55	303.61	369.01	418.57	1333.74
	Government (with %)	14.51	23.22	21.51	23.45	20.58
3	Transfer from Central	1139.09	697.19	935.22	928.46	3699.96
	Government (with %)	68.13	53.32	54.52	52.01	57.10
	Grand Total (with %)	1671.89	1307.60	1715.32	1785.19	6480.00
		100.00	100.00	100.00	100.00	100.00

Source: Authors' own calculation on the basis of data presented by the Department of PR & RD, Government of Telangana.

Table.6.4: Total Funds Flow to PRIs with Per Capita Count

SNo.	Description	2014-15	2015-16	2016-17	2017-18	Avg.
1	Own Revenues (in Crore)	290.25	306.80	411.09	438.16	361.58
	Per capita (in Rs)	81.76	85.94	114.83	122.05	101.14
2	State Finance Commission Release (in Crore)	19.60	43.64	4.00	28.20	23.86
	Per capita (in Rs)	5.52	12.22	1.12	7.86	6.68
3	Transfer from Assigned Revenue (in Crore)	193.16	222.73	192.39	293.76	225.51
	Per capita (in Rs)	54.41	62.39	53.74	81.83	63.17
4	Grants in Aid (in Crore)	20.85	28.91	169.83	92.43	78.00
	Per capita (in Rs)	5.87	8.10	47.44	25.75	21.85
5	Transfer under State Schemes (in Crore)	8.94	8.33	2.79	4.18	6.06
	Per capita (in Rs)	2.52	2.33	0.78	1.16	1.70
6	Transfer under Central FC (in Crore)	1009.75	695.99	908.9	928.46	885.77
	Per capita (in Rs)	284.44	194.96	253.88	258.62	248.11
7	Transfer under Central Schemes (in Crore)	129.34	1.20	26.32	0.00	39.21
	Per capita (in Rs)	**36.43**	**0.34**	**7.35**	**0.00**	**10.98**
	Grand Total (in Crore)	**1671.89**	**1307.6**	**1715.32**	**1785.19**	**1620.00**
	Per capita (in Rs)	**470.95**	**366.27**	**479.14**	**497.27**	**453.78**

Source: Authors' own calculation on the basis of data presented by the Department of PR & RD, Government of Telangana.

As far as Per Capita funds flow under each source is concerned, it is revealed as per data presented in Table 6.4 that the PRIs have received Rs. 248.11 under transfer from 14th Finance Commission to the PRIs which is highest than any other transfers. Per capita transfer under State Finance Commission is only Rs. 6.68.

With regard to transfer from State Government to PRIs, transfer from assigned sources of revenue constitute a main source of State Transfer which is 67.63% followed by Grant-in-Aid provided to the PRIs (23.39%), SFC Release (7.16%) and transfer under State Government Schemes and Progarmmes which is 1.82% only.

Table-6.5: Total Funds Flow to PRIs from State Government with Percentage

(Rs. in Crores)

SNo.	Description	2014-15	2015-16	2016-17	2017-18	Total
1	State Finance Commission Release	19.60	43.64	4.00	28.20	95.44
	In %	8.08	14.37	1.08	6.74	7.16
2	Transfer from Assigned Revenue	193.16	222.73	192.39	293.76	902.04
	In %	79.64	73.36	52.14	70.18	67.63
3	Grants in Aid	20.85	28.91	169.83	92.43	312.02
	In %	8.60	9.52	46.02	22.08	23.39
4	Transfer under State Schemes	8.94	8.33	2.79	4.18	24.24
	In %	3.69	2.74	0.76	1.00	1.82
	Total	**242.55**	**303.61**	**369.01**	**418.57**	**1333.74**
	In %	100	100	100	100	100

Source: Authors' own calculation on the basis of data presented by the Department of PR & RD, Government of Telangana.

6.2.3. Per Capita Funds Transfer to PRIs: Table 6.6 present the per person per year funds received by PRIs from three key sources that is (i) Own Source Revenue, (ii) Transfer from State Government and Transfer from Central Government. Considering the 2011 Census of Population of the State as a base year, it is estimated that the PRIs have received Rs. 259.00 from Central Government followed by Rs.101.05 from OSR and Rs.93.25 from State Government for each person from 2014-15 to 2017-18.

Table 6.6: Per Capita (Per Person per Year) Funds Flow to PRIs from Different Heads

S.No	Year	Own Source Revenue		State Transfer		Central Transfer	
		Total (in Crores)	Per Capita (in Rs)	Total (in Crores)	Per Capita (in Rs)	Total (in Crores)	Per Capita (in Rs)
1	2014-15	290.25	81.76	242.55	68.32	1139.09	320.87
2	2015-16	306.80	85.94	303.61	85.04	697.19	195.29
3	2016-17	411.09	114.83	369.01	103.08	935.22	261.23
4	2017-18	438.16	122.05	418.57	116.59	928.46	258.62
	Avg.	361.58	101.14	333.44	93.25	924.99	259.00

Note: Population growth is worked out @ 1.35 % per year (the base year being 2011 census population figures)

Source: Authors' own calculation on the basis of data presented by the Department of PR & RD, Government of Telangana.

6.2.4. Requirement of PRIs in the State and Schemes of Devolution: The devolution of functions to the PRIs becomes meaningful and effective only when the required financial support is provided. These devolutions are constitutionally mandated to be decided on the recommendations of the SFC. These grants are also depending on the total number of functions devolved to these bodies. It is evident from the data base that the ZPPs and the MPPs have no taxation power therefore their financial condition are depended on the grants provided by the State and Central Governments. However, since the 14th FC grants are not provided to these bodies, their main source is transfers from State Government.

With regard to finances of the GPs, it is observed through field study conducted in 20 GPs and also data collected from state that the Own Revenues of the GPs constitute between 10 to 20 % of their total revenues. It implies that the GPs are 80% dependent on the transfer of the Central and State Governments. It is evident from the data that the OSR of GPs has increased over the years which depicts a positive trend in the finances of the GPs. However, this scenario is not same for all the GPs. There are GPs whose own revenue is quite negligible.

6.2.5. Assessment of Financial Requirement of a GP: To determine the requirements of PRIs especially in term of providing basis services like (i) Drinking Water Supply, (ii) Sanitation, (iii) Roads, (iv) Solid and Liquid Waste Management, (v) Street Light and (iv) other Infrastructure Development (maintenance of assets of PRIs), requirement of the finances for a Village of Telangana (Lingareddy Palli) is worked out based on a study conducted by UNICEF and DCS (Division for Child Studies) of CESS. There are 12751 GPs in the state and on the basis of assessment made for one

Table 6.7: Total Revenue Received by GP and Revenue Requirement (In Rs.)

S. N	Items	2014-15 (Actual)	2015-16 (Actual)	2016-17 (Actual)	2017-18 (Actual)	2018-19 (Projection)	2019-20 (Projected)	2020-21 (Projected)	2021-22 (Projected)	2022-23 (Projected)	2023-24 (Projected)	Total (Projected from 2018-19 to 2023-24)	Average (from 2019-20 to 2023-24)
		Revenue Received by the GP & Per Capita Revenue with Projection											
1	Revenue Received by GP (In Rs) & Projection	3056159	3158432	5116155	6787603	9005113	11947083	15850195	21028454	27898450	37012873	113737054	22747411
2	Population of GP & Projection (1.35% increase)			5379	5486	5595	5706	5820	5936	6054	6175	29691	5938
3	Per Capita Revenue Receipt			951	1237	1609	2094	2723	3543	4608	5994	3831	3831
		Revenue Requirement of GP & Per Capita Requirement with Projection											
4	Requirement of GP (2017-18 Onwards)	-	-	-	11070489	12488958	16569101	21982226	29163819	38691639	51332197	157738982	31547796
5	Per Capita Revenue Requirement				2018	2232	2904	3777	4913	6391	8313	5313	5313
		Revenue Deficit of the GP & Per Capita Revenue Deficit											
6	Differential Amount (4-1)	-	-	-	4282886	3483845	4622018	6132031	8135365	10793189	14319324	44001928	8800386
7	Per Capita Differential Amount				781	623	810	1054	1371	1783	2319	1482	1482
		Revenue Released by SFC to the GP & Per Capita Release with Projection											
8	SFC Grants to GP	26574	53687	19384	33215	90051	119471	158502	210285	278984	370129	1137371	227474
9	Per Capita SFC Grants			4	6	16	21	27	35	46	60	38	38

Source: Field Survey, Lingareddypalli GP (Study conducted by UNICEF, Hyderabad & DCS-CESS).

GP, it is suggested that the SFC should work out for the entire State and determine the quantum of funds required for the PRIs of the state. Table 6.7 presents the requirement of finances of the above village.

Considering the above mentioned scenario, this study has suggested that 5.51% of the total SOTR should be devolved to the PRIs of the state for a period of 5 years i.e. from 2019-20 to 2024-25 (Table 6.8). It is observed that the present economic condition of the state, in particular growth of tax revenue is in a good shape. Further, at the PRI level, there is an increasing demand for providing basic services. Still many villages are not connected with good roads and drinking water supply.

6.3. Policy Recommendations

From the foregoing analysis of various factors that dealt with state finances and its sources (patterns and trends showing the last five years); functional and financial devolution to the local bodies; and finally the issues emerged from the field work carried out in 5 ZPPs, 10 MPPs and 20 GPs of the state, the following important suggestions that emerged which needs to be addressed by the State Finance Commission and the State Government for strengthening working of the PRIs in the State.

6.3.1. Devolution of Functions and Functionaries to the PRIs: In the realm of devolution of functions and functionaries the State of Telangana position is not very encouraging at present. As per the Devolution Report 2014-15 (Tata Institute of Social Sciences (TISS) and MoPR, 2015) the ranking of Telangana State stands at 17 out of 25 States in India. Therefore, it is also suggested that the PRIs should devolve more powers, adequate number of functionaries and funds from the state government for effective functioning. The DPCs and the Functional Committees need to be strengthened so that they can provide essential support to the PRIs for their effective functioning.

6.3.2. Own Revenues of the PRIs needs to be strengthened: It was observed that Taxes and Non-Tax revenues have become two main source of own revenues of the PRIs, in particular GPs of the state. In some cases, fees have also been collected by the PRIs from various sources. However, the PRIs, in particular GPs have faced few challenges like (i) shortage of manpower, and (ii) lack of cooperation of people while collecting various taxes and fees. In this connection, looking into the prevailing scenario, it is suggested that more items/subjects should be included under this category and where there is a possibility of collection of fees from any source, the PRIs should do this without waiting for government order/approval.

6.3.3. Allocation of finances to the PRIs from NET SOTR and Principles of Devolution: Data presented in Table 6.8 revealed the pattern of funds transfer to PRIs from the Net SOTR of the state for the years from 2014-15 to 2017-18. It is observed from the table that Rs. 1990.53 crores transferred to PRIs which is only 1.13% of the Net SOTR of the State.

Table 6.8: Current Pattern of Transfer to PRIs from NET SOTR of the State

(Rs in Crores)

Particulars	Year				Total
	2014-15	2015-16	2016-17	2017-18	
SOR	35735.20	54388.99	58189.53	67968.51	216282.13
SOTR	29288.38	39974.63	48407.81	61369.00	179039.82
SONTR	6446.82	14414.36	9781.71	6599.51	37242.40
Net SOTR	28792.81	39231.82	47629.67	60652.18	176306.48
Devolution to PRIs	498.50	406.09	536.98	548.95	1990.53
Devolution to PRIs as % of SOTR	1.73	1.04	1.13	0.91	1.13

Source: Authors' own calculation on the basis of data presented by the Department of PR & RD, Government of Telangana.

However, on the basis of our own assessment of funds requirement as per data presented in table 6.7 revealed that a typical GP needs at least 3.15 crores for performing core functions like (i) providing of drinking water supply, (ii) sanitation, (iii) road connectivity , (iv) health (v) and education for a five years period (2020-21 to 2024-25)[2] . Considering the case of 12,751 GPs, it is estimated that the GPs required Rs. 40,165.65 crores for performing core functions. On this basis, it is further assessed that the PRIs required Rs. 57378.55 crore for a five years period. However, the projected financial scenario and projection of Own Tax Revenue of the state as presented in Table-6.2 revealed that the state may not able to provide this much of funds to the GPs. Considering all these issues, it is thereforerecommended that a share of 6.7% from NET SOTR need to be allocated to the rural local bodies on three broad heads (i) net proceeds of taxes, fees, tolls and duties, (ii) and com-

[2] Based on the assessment of a typical GP in Telengana whose requirement is to the tune of 3.15 cores for meeting core functions of the GP, it is assumed that a total of Rs. 40,165.65 in the entire Telangana GPs is required to provide basic core functions.

pensation and assignment of taxes. Apart from these two heads, the State Government should provide Grants-in-aid to these bodies on the basis of population criteria.

It is also suggested that apart from considering population as a criterion for devolving funds to the various tiers of the PRIs, the other criteria need to be taken into account for various tiers. (i) For ZPPs the criterion is population(District Population-Urban Population) and PR Road Length, (ii) For MPPs the criterion is population (Mandal Population-Urban Area Population) and PR Road Length and (iii) in case of GPs, it is based on population and the area of village site.

It is further suggested that the share among the ZPPs, MPPs and the GPs of the total grants from the SOTR should be in the ratio of 10:20:70 respectively.

Table 6.9: Suggested Transfer of NET SOTR to PRIs (Rs in Crores)

Year	Projected Amount to be Transferred	Inter-Se Transfer		
	Total	ZPPs (10%)	MPPs (20%)	GPs (70%)
2020-21	7083.01	708.30	1416.60	4958.11
2021-22	8809.39	880.94	1761.88	6166.57
2022-23	10956.54	1095.65	2191.31	7669.58
2023-24	13627.02	1362.70	2725.40	9538.91
2024-25	16902.59	1690.26	3380.52	11831.81
Grand Total (2020-21 to 2024-25)	**57378.55**	**5737.00**	**11475.90**	**40165.65**

Source: Authors' own calculation on the basis of data presented in Table 6.7.

6.3.4. Recommendations of the 15th Finance Commission: The 15th Finance Commission has recommended Rs. 7201.00 crores for the PRIs of the State. The commission has also recommended Rs.2228.00 crore as health grants to the PRIs for improving health infrastructures in rural areas. The total amount to be transferred to PRIs during 15th FC award period is Rs. 11276.00 which is Rs.5900.71 crores more than 14th FC award to PRIs. The grants to PRIs will be made available to all three tiers of Panchayats-Village, Block and District.

6.3.5. Priority for Utilisation of Funds by the PRIs: While utilising funds devolved by SFC to the PRIs as per formula suggested in above Table (Table 6.9), the PRIs, in particular GPs should give priority on certain key basis services like (i) Drinking Water Supply, (ii) Roads, (iii) Sanitation and (iv) Solid and Liquid Waste Management.

Table 6.10: Recommendations of 15th Finance Commission to PRIs

(Rs.in Crore)

Finance Commission	Year					Total
	2015-2020		2020-21	2021-26		
	Allocation	Release	-	General Grants	Health Grants	
14th FC	5375.29	2954.82	0	0	0	5375.29
15th FC	-	-	1847.00	7201.00	2228.00	11276.00
Total	5375.29	2954.82	1847.00	7201.00	2228.00	14230.82

Note: Total amount includes (i) total release to PRIs under 14th FC Awards and (ii) total recommended amount to PRIs by the 15th Finance Commission

Source: Report of the 15th Finance Commission, 2021-26.

Drinking Water Supply: It was observed through this study that many villages are now connected with Protected Water Supply Scheme being implemented by Government of Telangana. However, there is a need for maintenance of the scheme and also provided connectivity to the unconnected villages. In the water supply programme, partially covered, habitations/villages are to be given priority.

Roads: The road connectivity to various villages and hamlets are not in a good condition which was observed during the study. All the villages are not connected through all-weather roads. So there is a need to connect all the villages through all-weather roads. In this connation the SFC devolution to GPs may enable them to meet this target.

Sanitation: Under the Swachha Bharat Mission (SBM) Individual Households Latrines have been constructed in various villages. It was observed through this study that the GPs are not involved with this process. So, funds should be devolved to GPs for this purpose.

6.3.6. Infrastructure of the PRIs needs to be Improved: It was observed through this study that in many cases the own infrastructure of the PRIs, in particular the GPs like Office Building, Computer, Electricity Connection, Meeting and Training Halls, Staff Quarters etc. are in poor condition which have resulted in ineffective functioning of these institutions in the state. So, it is therefore necessary that the SFC should provide special financial assistance to the GPs/PRIs for improving these infrastructures. It should provide as untied grants to these institutions.

6.3.7. Improving Capacity Building: Capacity Building for PRI Members and Functionaries should be given adequate attention. The Capacity building for the PRIs, in particular the members of the PRIs should be based on their area and need. Effective capacity assessment study should be done before organising capacity building programmes and implementation should be done accordingly. It is also necessary to ensure that the training institutions like SIRD are fully equipped with the necessary physical and human infrastructure like buildings, hostels, staff quarters, training aids like computers as well as a talent pool of trainers.

6.3.8. Strengthening of Data Base of the PRIs: It is necessary to improve the data base of the PRIs which can help to the State Government and the SFC for use the data for various purposes. For this purpose, each GP should have adequate computer and manpower facilities.

6.3.9. Strengthening of SFCs: It is recommended that SFC Recommendations need to be approved in toto as is the case with Central Finance Commission Recommendations which are usually accepted by the Centre/Union government in toto. In order to have continuous data generation, a SFC cell need to be put in the Department of Finance irrespective of the fact that SFC term is completed or not.

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