

Revenue mobilization by gram panchayats in Karnataka: An economic analysis

Raghavendragoud Patil¹ and R. R. Biradar²

Abstract: *Gram Panchayats have more responsibilities and less financial sources (Rajaraman, Bohra and Renganathan, 1996; Abdul, 2000). Therefore requiring them to mobilize "own" revenues is important both for reasons of efficiency and accountability. Therefore this paper explores firstly understanding relationship of own source revenue with other socio economic variables in GPs and the revenue mobilization of Gram Panchayats in four divisions of Karnataka through an analysis of secondary data. Its analysis of SC/ST population, Cultivators in the main workers and household industry these three components significantly influence to OSR but literacy components was negatively related to OSR collection. It was, observed that of all the factors of economic development was fundamental. Because of Bangalore and Mysore divisions were revenue mobilization and PCIOSR has been significant increases compare to Belagavi and Kalaburgi in study period. Therefore Kalaburgi division can't possible higher increase the revenue mobilization and PCIOSR compare to other three divisions of Karnataka because of socio-economic backwardness. Therefore the State Government provide the infrastructure facility to rural people. Government fill the gap in the understanding of villagers as to why they should pay tax. GPs will do visible service delivery with OSR; campaigns to explain to people as to why it is necessary for the Panchayats to generate its own fund by exploiting its tax and non tax revenue sources. While communicating to the gram Panchayats, it needs to be emphasised that resource generation from own sources and utilising such resources for local development should be considered a priority task of all gram Panchayats in backward divisions.*

Keywords: socio-economic Indicators, GPs own source revenue, four divisions of Karnatak

Introduction

In the Indian context, Failure of the centralized planning system to resolve local problems and to promote local level development has led the promotion of local self-governance known as Panchayat Raj Institutions (PRIs). Article 40th of the Constitution envisages the Gram Panchayats to function as vibrant units of local self governance, an attempt turn this into a reality has been made with the 73rd and 74th Constitutional Amendments which have created constitutionally mandated third tier of government in the rural and urban areas respectively. Karnataka has been in the forefront of experiments with the decentralization in the country. 73rd Constitutional Amendment envisages delegation of functions to Gram Panchayats to be matched by adequate

¹ Research Scholar Department of Economics, Karnatak University Dharwad.

² Professor Department of Economics, Karnatak University Dharwad.

Corresponding author: Raghavendragoud Patil can be contacted at: rnpatil2282@gmail.com

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devolution of funds by empowering them to raise sufficient own source revenues. It is also the only tier of local government which has the power to tax. The own source revenues include taxes on land and buildings, the water charges, license charges, fees for various services and certificates provided by the GP. In addition to these, GPs receive grants from the state and central governments. These grants are generally tied to specific purpose of development activity. The Gram Panchayats are handicapped not only by the many restrictions placed on the exercise of powers; they also have no administrative control over functionaries who report to their superiors in the line departments of government. Even though transfers are inevitable at local levels as they do not have comparative advantage in raising revenues, and borrowing [Oates 1972]. GPs have more responsibilities and less financial sources (Rajaraman, Bohra and Renganathan, 1996; Abdul, 2000). Therefore requiring them to mobilize "own" revenues is important both for reasons of efficiency and accountability. Thus, a critical factor necessary for strengthening Panchayats is to enable and empower them to enhance their own revenues.

Improving own revenues strengthens the link between revenue and expenditure decisions of the rural local bodies at the margin, which is extremely important to promote both efficiency and accountability in the provision of services. The Own Source Revenue (OSR) in the GP has been the subject of many studies. These studies have examined the aspect of low OSR collection and reasons for cannot promote both efficiency and accountability in the provision of services. Proximity to voters is a factor that works adversely in the OSR collection as highlighted by many studies. This situation is further aggravated by the state and central governments using GPs as agents for implementing a variety of their developmental programmes stretching their already scarce resources. Higher literacy and lower dependence on agriculture, both indicators of economic development, were found to positively correlate with OSR in the state of West Bengal (Buddhadeb Ghosh, 2015). Generally, the studies find a positive correlation between economic development and the level of OSR. The study focused on Karnataka state because of all districts of Karnataka divided into four divisions based on socio-economically development indicator. This paper explores firstly understanding relationship of own source revenue with other socio economic variables in GPs and the revenue mobilization of Gram Panchayats in four divisions of Karnataka through an analysis of secondary data.

Review of Literature

Rao (2012) examined the Gram Panchayat Taxes in his findings per capita own revenues and per capita revenue from property taxes on a number of variables representing the revenue capacity of GPs in a linear regression model. Altogether, the regressions were estimated with data from 639 GPs in the four districts of Karnataka. The results showed that revenue collections were not significantly higher in more prosperous Panchayats. However, Panchayats with greater proximity to taluk and district headquarters, and those with better connectivity and access to Revenue Centre for Budget and Policy Studies markets, were able to collect significantly higher revenues both from property tax as well as other sources of revenue assigned to them. The results also showed that the transfer system had not undermined the revenue collections of the GPs.

Shaheena (2013) studied on some of the important issues related to resource mobilization in the context of devolution of lump-sum plan grant-in-aid under the decentralization in Kerala. Resource transfers create an income effect, as the income of the recipient government increases. This can act as a disincentive for the recipient government. By analyzing the trends in tax and non-tax sources and the tax effort, this paper point to need for rationalization of tax structure. Their study finds that Even with the existing structure of taxation, the development in the

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economy is resulting in an increased revenue mobilization. However the revenue mobilization by GPs is far below the potential. Very few GPs have taken concerted efforts to tap the potential (Govt. of Kerala 2010).

Objectives

1. To analyses relationship of own source revenue with other socio economic variables of GPs in Karnataka.
2. To analysis of own source revenue across divisions of development categories in Karnataka.
3. To Findings and Policy Suggestions.

Methodology

The study is based on secondary data collected from the www.RDPR.kar.nic.in and census of Karnataka in 2011. The study used the socio-economic indicator for the relationship to Percapita Owen source revenue. The simple statistical tools used like percentage and Regression.

Limitation of the Study

The study is limited in Karnataka state only and limited period during 2010-11 to 2014-15. The study has focus on SC/STs population, literacy and working patterns.

Results and Discussion

To Analyze the Relationship of Own Source Revenue with Other Socio Economic Variables

Tables 1 indicate that the adjusted R square had been 0.641 which indicates that the model can explain more than 60 percent of the variation in log PCOSR. Population growth rate was negatively related to PCOSR at 0.10 percent level of significance as in case of the general model here also SC/ST maintained a positive relation with the explained variable, i, e PSOSR. The level of significance however had been poorer 0.96. Literacy does seem to have any effect on PCOSR (estimated B had been 0.05 which was found to be statistically significant). The percentage of cultivators in the main workers had a positive relation to the growth of PCOSR; the beta co-efficient had been quite high but it was significant only at 22 percent. Contrary to what we expected, HHOTH had been positively related to PCOSR. However it was statistically significant at 0.04 percent level of significance. In this model shows that SC/ST population, Cultivators in the main workers and household industry these three components positively influence to OSR and other component negatively relation. The detail of the Model is given below.

$$\text{PCOSR} = a + b_1 \text{LOGPOP} + b_2 \text{LOGSC/ST} + b_3 \text{LOGLITERACY} + b_4 \text{LOGCUL} + b_5 \text{HHINDU}$$

Model Summary ^b								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	.610 ^a	.732	.641	68.66320	.732	2.846	.037	1.137

Table 1: Own Source Revenue with Other Socio Economic Variables in Karnataka

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-124.834	164.959		-.757	.457
	Total Population	-1.343E-05	.000	-.100	-.409	.686
	SC/ST Population	4.849E-06	.000	.012	.042	.967
	Litracy	.461	2.204	.052	.209	.836
	Mainworkers	2.200	1.755	.359	1.254	.222
	hhoth	2.860	1.188	.804	2.407	.024

Sources: Census of Karnataka 2011.and RDPR.kar.nic.in .

a. Dependent Variable: pcosr

Analysis of own source revenue across development categories in Karnataka

Table 2 shows that trend of revenue mobilization of Gram Panchayats in four division of Karnataka during 2010-11 to 2014-15. State revenue mobilization was 23.26 percentage in 2010-11. Bangalore 28.03 and Mysore 29.35 division revenue mobilization was higher than state in same year. Belagavi and Kalaburgi division revenue mobilization was lower compare to Bangalore and Mysore division in 2010-11. After 2010-11 four division and state level revenue mobilization trend was fluctuating up to 2014-15. And Bangalore and Mysore revenue mobilization trend was higher than state and followed by Belagavi and Kalaburgi division during 2011-12 to 2014-15. Because of Bangalore and Mysore socio-economic condition was better compare to other division of Karnataka. It's possible that Bangalore GPs over the years have been improving the collection of own revenue. Critically, Mysore, Kalaburgi and Belagavi division revenue mobilization has been come down during 2010-11 to 2014-15.

Table 2: Trend of Revenue Mobilization of Gram Panchayats in Different division in Karnataka during 2010-11 to 2014-15 (Percent)

Division	2010-11	2011-12	2012-13	2013-14	2014-15
Bangalore	28.03	25.85	23.80	22.82	31.06
Mysore	29.35	24.80	23.59	25.47	27.45
Belagavi	17.53	18.41	15.10	15.96	16.20
Kalaburgi	11.24	7.01	7.71	9.89	10.90
STATE	23.26	21.38	19.37	20.10	23.87

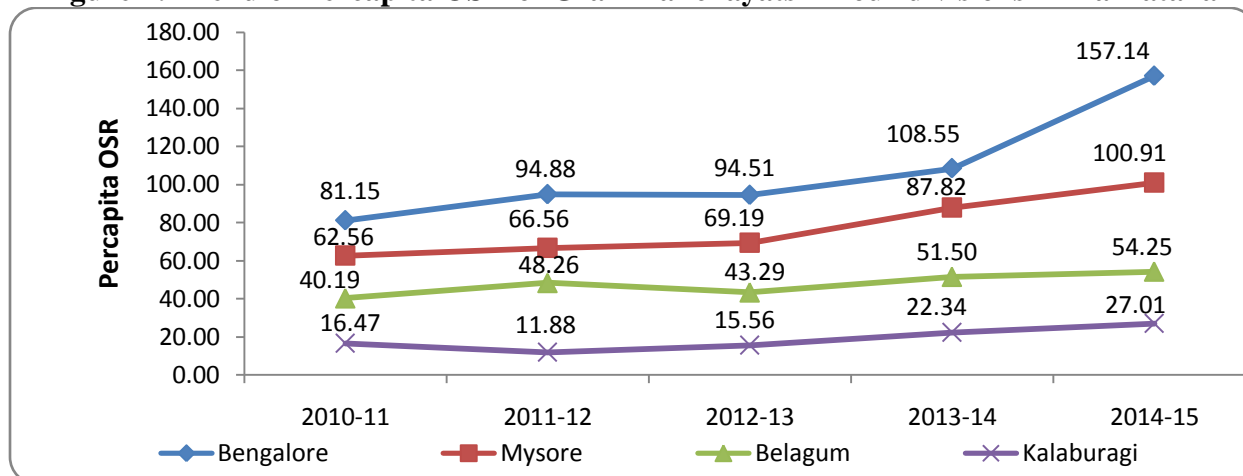
Source: Panchatantra in RDPR.kar.nic

Figure 1 Illustrate that trend of Percapita own source revenue in four divisions of Karnataka during 2010-11 to 2014-15. Bangalore Division PCIOSR was higher than other three divisions in 2010-11. During this year Kalaburgi division was poor performance of PCIOSR 16.47 compare to Belagavi 40.19, Mysore 62.56 and Bangalore 81.15 divisions. Mysore division PCIOSR trend significantly increases compare to other three divisions in over the years. Bangalore division PCIOSR trend was high compare to Mysore, Belagavi and Kalaburgi over the years. But it's PCIOSR slightly com down 94.88 to 94.51 during 2011-12 to 2012-13. Although Bangalore division PCIOSR performance was much better compare other divisions. Because of Bangalore socio-economic condition was better compare to others. Belagavi division PCIOSR was lower than Mysore and Bangalore and PCIOSR also come down 48.26 to 43.29 during 2011-12 to 2012-13. During 2010-11 to 2011-12 Kalaburgi PCIOSR come down 16.47 to 11.88,

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after this period PCIOSR has been increases in Kalaburgi division, although PCIOSR trend over the years very poor performance compare to Belagavi, Mysore and Bangalore. Because of socio-economic condition was very poor in Kalaburgi. Therefore Bangalore and Mysore division socio-economic factors influenced to highest PCIOSR mobilization over the years.

Figure 1: Trend of Percapita OSR of Gram Panchayats in four divisions in Karnataka



Source: Panchatantra in RDPR.kar.nic

Findings

There have been several attempts to identify the determinants of Own Source Revenue of GPs. Most of them have clearly identified a relationship of OSR with economic development. The present study has gone beyond testing OSR with various indicators of development. The secondary data analysis and the analysis of outliers confirmed the now generally held position that economic development plays an important part in a GP's ability to rise own source revenues. Thus, it was seen that SC/ST population, Cultivators in the main workers and household industry these three components significantly influence to OSR but literacy components was negatively related to OSR collection. It was, however, observed that of all the factors economic development was fundamental. Because of Bangalore and Mysore divisions wererevenue mobilization and PCIOSR has been significant increases compare to Belagavi and Kalaburgi in study period. Therefore Kalaburgi division can't possible higher increase the revenue mobilization and PCIOSR compare to other three divisions of Karnataka because of socio-economic backwardness.

Policy Suggestion

Therefore the State Government provide the infrastructure facility to rural people. Government fill the gap in the understanding of villagers as to why they should pay tax. GPs will do visible service delivery with OSR; the villagers have shown interest in paying tax. Hence it is recommended that any attempt by GPs to initiate a programme of augmenting its revenue should be accompanied by campaigns to explain to people as to why it is necessary for the Panchayats to generate its own fund by exploiting its tax and non tax revenue sources. Create the awareness of involved the people participation in GPs functions. Government may insist upon all gram Panchayats to ensure that they augment their tax and non-tax revenue substantially by utilising their fiscal powers more efficiently and utilise the resources thus generated for delivering essential services to the localcitizens. While communicating to the gram Panchayats, it needs to

be emphasised that resource generation from own sources and utilising such resources for local development should be considered a priority task of all gram Panchayats in backward divisions. Presently, this task is given low priority by most of the gram Panchayats. The state government may introduce some elements of hard budget constraints and link it with the system of transfer of resources from the state to the local. One way to do this is to assign to the GPs exclusive responsibilities for delivering some core civic services, such as intra-GP roads, culverts, street lights, water supply from spot sources, sanitation (drainage, solid waste disposal) etc to Backward divisions in Karnataka.

Conclusion

73rd and 74th Constitutional Amendments which have created constitutionally mandated third tier of government in the rural and urban areas respectively. 73rd Constitutional Amendment envisages delegation of functions to Gram Panchayats to be matched by adequate devolution of funds by empowering them to raise sufficient own source revenues. But GPs have more responsibilities and less financial sources (Rajaraman, Bohra and Renganathan, 1996; Abdul, 2000). Therefore requiring them to mobilize "own" revenues is important both for reasons of efficiency and accountability. Thus, a critical factor necessary for strengthening Panchayats is to enable and empower them to enhance their own revenues. This paper has focus on the above issue in Karnataka. Lack of infrastructure facility and socio-economic backwardness of the areas are major problem of the unable to mobilize the revenue to Gram Panchayats.

Abbreviation

GP	Gram Panchayat
OSR	Own Source Revenue
PCI	Percapita Income
PCOSR	Percapita Own Source Revenue
HHOTH	Other Households

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