

Rural Fiscal Decentralisation: A Case Study of Selected *Gram Panchayats* in West Bengal

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Abstract

Using the primary survey data from eight selected Gram Panchayats of two districts in West Bengal, this paper evaluates the progress of rural decentralization in terms of financial health and democratic functioning of the surveyed panchayats along with their implications for accountability related to decentralized rural local governance in West Bengal. The finances of the panchayats are in a grossly unsatisfactory state as the panchayats depend mostly on transfer from higher levels of government. The percentage of untied fund received against the total fund for all the panchayats is not very significant which limits their financial autonomy. Peoples' participation in the panchayats meetings is low with few exceptions. In most of the cases the gram sabhas are a mere formality where those who attend are either reduced to being spectators or consumers of beneficiary programmes. Panchayat system in West Bengal has emerged as an institution for distributing the personalised benefits. Therefore, this paper argues for strengthening the fiscal health of the panchayats through increase in own source revenue or restructuring the intergovernmental transfer. Further, for making the institutions of rural local governance more accountable and transparent, this paper argues for creating awareness about the beneficiary programmes among the whole population and strict adherence to constitutional provisions for linking people with the government and their office bearers.

Key words: Fiscal Decentralisation, Own Source Revenue, Gram Panchayat

Introduction

The traditional system of provision of public goods and services has been highly centralized in many developing countries in the sense that the development strategies were based on centralized mode of planning and resource allocation. In recent years, decentralization gained popularity because the local government appeared more efficient in providing public goods and services in accordance with the tastes and preferences of individual residents and, thus, could raise their level of satisfaction. By taking decisions to the local level, decentralization has the potential to increase efficiency in the use of scarce local resources. The citizens, being endowed with the opportunity to participate in the decision-making process affecting their own lives, would be more willing to 'share the burden' for local development. Therefore, the possibility of financing basic services from taxes borne by the local tax payers renders the decision makers more responsive to the local residents. With all these features, decentralization is likely to improve the delivery of basic services through better matching of public services to the citizens' needs and preferences. However, the socio-economic-political conditions in the developing countries are not always conducive for realization of the potential benefits of decentralization. The ultimate effect depends upon the incentives facing

the various decision makers in the decentralized structure. The incentives and goodness of decision (relating to design, financing, pricing, operation, maintenance etc.) depends upon the underlying nature of accountability mechanism, i.e., the extent to which decision makers bear the financial and political consequences. In other words, the realization of oft mentioned benefits of decentralization is crucially influenced by the institutional capacity of the local government, elite capture, political culture, clientelism and accountability mechanism¹ The World Bank's three volume study on decentralization ranks India as one of the best performers, internationally, in terms of its implementation of decentralized reforms. In the post-independence period, various attempts have been made to facilitate the process of decentralization. Among them, the 73rd Constitutional Amendment Act is the most important one that provides constitutional recognition to the rural local bodies in India. The important features of the 73rd CAA are as follows: (i) establishment of a three-tier *panchayat* structure, with elected bodies at village, block and district levels for five year terms; (ii) reservation of one-third of all seats for women and reservation for SCs and STs proportional to their populations; (iii) reservation for chairperson of the *panchayats* following the same guidelines; (iv) constitution of *gram sabha*, with all eligible voters within a *gram panchayat* area to serve as the formal deliberative body at the village level; (v) determination of functional domain of the *panchayats* by identifying 29 areas of operation and (vi) establishment of State Finance Commission (SFC) to review and revise the financial position of the *panchayats* on five year intervals and to make recommendations to the state government about the distribution of *panchayat* funds. In essence, the 73rd CAA covers many areas that would enable the *panchayats* to improve the lives and wellbeing of rural people. The Act contains specific provisions that guarantee the inclusion of traditionally excluded groups, such as women, SCs, STs in governance structure and also ensure transparency and accountability for rural institutions such as *gram panchayats* and *gram sabha*.

Local governance in India is a state subject. Therefore, in the post amendment phase, different states have responded with varying degrees as the Act just provided the outline of the local governance system and state government enjoyed considerable discretionary power in implementing the provisions of the same. In fact, in most states, government officials (e.g., district magistrate) and MPs and MLAs have the authority to interfere in the functioning of the local government. The states have been found to be unwilling to devolve function and functionaries and grant the *panchayats* fiscal autonomy (World Bank, 2000a; 2000b; 2000c). Even in recent year, poor level of own source revenue and it's declining trend and growing expenditure indicates fragile financial health of the local governments and their high level of dependency on the higher levels of governments². Kerala and West Bengal (and to some extent Karnataka, Maharashtra and Madhya Pradesh) have been recognized as the exceptions with significant devolution of power to the local level.

The most important provision of decentralization relates to creation of *gram sabha* which is constituted of all eligible voters within a *gram panchayat* and is meant to serve as a principal mechanism for transparency and accountability. However, utilization of this forum is reported to be far from satisfactory as several micro level studies showed that *gram sabha* often fail to fulfil their role as deliberative bodies or as a mechanism for accountability. Attendance at *gram sabha* meetings is very poor. Several studies have attempted to identify the reasons behind insufficient participation and the reasons identified are: lack of awareness about meetings, hesitation among women to actively participate because of social taboos, lack of awareness among people in general, and specifically among women and socio-economically backward sections, about their roles and rights in these meetings, inconvenient meeting time and venue, pre-conceived notion about futility of those meetings, disadvantaged

sections or backward castes believing that their voices will not be honoured as the leadership comes from the higher echelons of the society, corruption, and so on (Mathew et. al., 2003: 48; Johnson 2003: 29; Ghatak et. al., 2002: 50-51; Beher et. al., 2002: 37).

Local elites controlled the local *panchayats*. In spite of the reservation for the marginalized groups, *panchayats* and *gram sabhas* have been usurped by more informal pattern of domination and power. For performing their role as the elected representatives, women have found to depend heavily on their male relatives. Similarly, people belonging to SC/ST groups refrained themselves from actively taking part in the democratic deliberations. The structural conditions pertaining to socio-economic inequalities that are ingrained in rural India actually contributed to the systematic exclusion of socially disadvantaged groups. Access to land, access to state officials etc allowed the rural elite to establish and maintain control over the other subordinate groups and this, in turn, helped them to capture the local *panchayats* (Johnson, 2003).

All these evidences suggest that the decentralized initiatives in India through panchayati raj have been facing difficulties in upholding transparency, accountability and democracy – the crucial elements of good governance. Analysis of available state specific evidences would provide us more insights about the problems and prospects of decentralization initiatives in India. Among the Indian states, in West Bengal, an ambitious and relatively well functioning decentralization program has been in operation for two decades. Following panchayat reforms, scope of participation by different socio-economic classes improved in West Bengal. A substantial group of ‘middle class’ or white-collar employees (e.g., school teachers, clerks etc.) and middle peasants became the panchayat representatives. These opportunist groups formed a new ‘party elite’ which, in turn, led to politicization of planning process and the implementation of public projects. Nonetheless, the village constituency meetings provide an important platform for ideal participatory governance in West Bengal as people started to question the pradhan and local representatives on the progress of implementation of projects, allocation and use of funds, selection of beneficiaries etc in such meetings. Moreover, the reform process resulted in improved access and quality of basic services. The poorest people started to experience the benefits of the government development programs (Ghatak et. al., 2002). Political reservation of socially disadvantaged groups improved targeting of publicly provided groups to those groups (Bardhan et. al., 2010). There are, however, reports that indicate inter village allocation followed party lines in the sense that those not belonging to the party locally in power got discriminated against in accessing public resources (Bardhan et. al., 2007). Importantly, it has been argued that decentralization campaign in West Bengal has been relatively successful as state level politicians have intervened at local levels in support of poorer peoples’ against local power holders (Crook et. al., 1999). Kerala is the other Indian state that has taken fairly ambitious steps towards democratic decentralization with significant devolution of fund and functions to the local level. The Peoples’ Campaign initiatives attempted to strengthen people’s participation in the development process. Kerala’s socio-economic context and political culture helped to realize the goal of democratic decentralization. In the meetings of the gram sabha, women and SCs/STs participated somewhat disproportionately. Also, the decentralized planning had improved the provision of roads, housing and child services (Heller, 2010). The experiences of West Bengal and Kerala underscore the importance of ‘enabling regime’ for ensuring effectiveness of local governance as, in these states, relative success of local governance was strongly associated with a government that was highly committed to the goals social redistribution in rural areas (Echeverri-Gent, 1992). Somewhat similar positive results have also been reported for the panchayat system in four states of south India. The study found that having a reserved panchayat pradhan improves targeting towards SC/ST households. However, the study expressed concern about bias in the allocation of resources to benefit pradhan’s own villages.

Another optimistic part of the study is comparatively greater attendance of the illiterate, the landless and SC/ST people in gram sabha meetings than other groups. The study reported better targeting towards the socially disadvantaged groups where gram sabha meetings are held. This indicates the value of poorer peoples' active participation in gram sabhas which may have a positive influence on targeting towards the poor (Besley et.al., 2007). Madhya Pradesh is considered as the other better performing state in respect of its initiatives towards democratic decentralization through the panchayati raj. Strong political will at the top level strengthened the panchayat system through framing of progressive Acts and continuous delegation and devolution of powers to panchayat institutions. However, the actual implementations of various provisions of the system were very weak as well as ineffective. Resistance and non-cooperation from the bureaucracy, prevailing socio-economic inequalities and resistance from rural elite and lack of capacities at the grassroots level critically hampered the smooth functioning of panchayat institutions. The Gram Sabha, despite its potential to make governance transparent, accountable and participatory, remained under-utilized. Participation in the Gram Sabha meetings, by and large, was found to be low in the state. This reduced the scope for people to hold elected representatives and government officials related to the system to account. Despite these limitations, the panchayat system resulted in empowerment of women and socially disadvantaged section of people. Moreover, collective community decision-making and incorporation of peoples' needs and desires in developmental policies were the other positive outcomes of the system. These achievements assumed greater importance in the context of largely unequal non-democratic social and political order that prevailed in the state (Beher et. al., 2002). Andhra Pradesh deserves special mention here as the state took a different route to energize a political alternative to the panchayat system. In Andhra Pradesh, projects and public resources were channeled through 'parallel bodies' and the bureaucracy. The performance of one of the programs, namely DWCRA (Development of Women and Children in Rural Areas) has been particularly impressive as the scheme provided most tangible benefits to the rural poor, particularly in the form of low interest credit and subsidized grains. Scholars have explained the relatively clean functioning of this program in terms of the state government's desire to transmit an image of a government that is committed to principals of efficiency, transparency and accountability. In particular, in its attempt to consolidate the electoral support base among women, SCs and the poor, the state government created strong incentives so that the benefits of this program reach the intended beneficiaries. Here, the direct and predictable relation between local citizen and non-elected public officials provided the much needed accountability channel through which the citizens could interact with the state and, most importantly, obtain information about the programs and their entitlements. The targeting and selection of beneficiaries were under the authority of block and village development officers who are ultimately responsible for the implementation of rural development programs and are held accountable to their higher officials at the district level. The district officials had the power to monitor, transfer and suspend the concerned officer responsible for poor implementation (Johnson et.al., 2005). Indeed, the government of Andhra Pradesh did not devolve power to the local level to the extent as envisaged by the proponents of decentralisation. Instead, it relied on bureaucrats and user committee members and the arrangement produced positive outcomes for the rural poor. This also highlights the importance of role that higher level of government and its officials can play in counterbalancing the forces that tend to disfavour the poor.

Undoubtedly, analysis of available state specific evidences has provided us more insights about the problems and prospects of decentralization initiatives in India. Among the Indian states, in West Bengal, an ambitious and relatively well functioning decentralization program

has been in operation for two decades. The Left-front ruled state government, out of its commitment to the process of democratic decentralization, acknowledged the potential role that the local government can play in efficient and equitable rural development. Importantly, the state has experienced political turn around with a non-left government came into power in 2011 by replacing the 34-year-old left government. All these make West Bengal an interesting case study. Against this background, the present chapter examines the present state of fiscal decentralization in West Bengal. To systematically address this objective, we evaluate the extent of rural fiscal decentralization in the state in West Bengal.

The Study Area

For our study purpose, four stage stratified sampling technique has been employed. In the first stage, we have selected two districts, namely Birbhum and North 24 Parganas. Both these districts possess enough heterogeneity in terms of several socio-economic variables. Given the theoretical and empirical arguments in favour of decentralization outcome being influenced by socio-economic-political situation, in the second stage two blocks in each district – one is advanced block and the other one is backward block have been chosen. Different indicators related to health (e.g., no of health centres, no of beds in hospitals, availability of doctors per thousand populations etc.), educational attainment (e.g., literacy rate, female literacy rate etc.) and standard of living (e.g., percentage of mouzas with drinking water, percentage of electrified mouza, road density etc.) have been considered for selection of blocks. In Birbhum, Bolpur- Sriniketan Block has been selected as the advanced Block whereas Siuri-II block has been selected as the Backward Block. In North 24 Parganas Hasnabad block has been selected as the advanced block and Basirhat-I as the backward block. In the third stage we have chosen two panchayats in each block based on the performance in spending and/or utilization of different state and centrally sponsored schemes having implications for poverty alleviation at the village level as well as their socio economic conditions. In Bolpur-Sriniketan block we have selected Raipur-Supur GP and Kankalitala GP whereas Purandrapur and Bansanka GP have been selected from Siuri-II block. Similarly, in North 24 Parganas Sankchura-Bagundi and Nimadaria GPs in Hasnabad block and Amlani and Makhalgachha GPs in Basirhat-I block have been selected. The fourth stage involves selection of two sansads under each Panchayat. We have chosen 20 households from each sansad. Apart from the socio-economic characteristics, the gender and caste of the elected representatives as well as their political affiliation have been considered while selecting the sansads. This is justified as one of the objectives of 73rd CAA is to empower people belonging to socio-economically weaker section of the population. Moreover, nature of political competition also affects the accountability and responsive aspects of decentralized governance³. Political incentives may also motivate the politicians to responds to the needs and expectations of that segment of population which is politically important to them⁴. This is reflective of practice of ‘clientilism’ that thrives particularly at low level of development and when the credibility of political competitors is low⁵. Further, an attempt has been made to choose two sansads in such a way so that one of the representatives is being re-elected whereas the other one is newly elected representative. In some cases, the elected representative happens to belong to a political party different from the party in power at the panchayat level. Further, among the selected 20 households, 10 households have received some benefits from the panchayats while the rest have not received any benefit from the panchcyats. Thus we have the total sample of 320 households and 16 elected representatives from eight panchayats under four blocks in two different districts. Therefore, our selected samples possess enough socio-economic-political heterogeneity to shed important insights on the impact of form/type of decentralization on poverty alleviation.

Analysis of Fiscal Health of the Selected *Panchayats* in West Bengal

We have gathered data from the audit reports of each of the 8 GPs over the last few years to examine the state of financial health of the surveyed panchayats. From theoretical point of view, decentralisation to rural local governments would be meaningful only when the panchayats have adequate untied funds to provide public services assigned to them. Untied funds would imply that either the panchayats should be able to raise tax and non-tax revenues from the sources assigned to them or higher level governments should provide unconditional transfers by way of share in taxes or block grants. Largely, the panchayats are transfer-dependent with very little revenues raising powers that are important both for efficiency and accountability. The fund received by the lowest level of governance can be categorised under two broad heads – Tied Funds and Untied Funds. Most of the funds come under various developmental schemes with specific guidelines. If the funds remain unspent, the money should be returned to the funding agency. The local needs can rarely be addressed with this type of fund as the Panchayat does not have the power to use beyond its guidelines. On the other hand, the Panchayats get untied funds from various funding agencies without any conditionality. So, the untied fund allotted to a GP provides some degree of financial autonomy to the Panchayat. With higher degree of financial autonomy, a GP can spend the money as per its own requirement. In West Bengal, untied fund is mainly constituted by funds from the Union Finance Commission (UFC), the State Finance Commission (SFC) and the Backward Regions Grant Fund (BRGF). Along with these, select GPs receive untied funds from some other source such as “Strengthening Rural Decentralisation” (SRD), a programme supported by Department for International Development (DFID), United Kingdom. This fund is further devolved to the Gram Unnayan Samities (GUS) at the ward level for sponsoring livelihood related activities. It is important to note here that due to poor maintenance of financial data, it is difficult to have a trend analysis. In general, it has been found out that on an average the untied fund received varies from one GP to another over the years (Table 1). The proportion of untied fund to total fund received for Bonsanka GP exhibited an increasing trend from 2011-12 to 2014-15, with an average of percentage figures of 16.58. Similarly, three other GPs of Birbhum district experienced the same increasing trend over the period under consideration. On an average the percentage of untied fund received by Purandarapur

Table 1: Percentage of untied fund to the total fund received by surveyed GPs

Sl. No.	GPs	Percentage of Untied fund to the total fund received				
		2011-12	2012-13	2013-14	2014-15	AVERAGE
1	Bansanka	13.12	17.63	13.23	22.35	16.58
2	Purandarapur	-	-	10.15	13.13	11.64
3	Kankalitala	8.91	3.78	8.92	16.06	9.42
4	Raipur-Supur	9.53	7.95	8.03	17.95	10.86
5	Sankchura-Bagundi	13.01	9.60	18.35	45.04	21.50
6	Nimdaria-Kodalia	-	3.90	19.10	17.32	13.44
7	Makhalgachha	-	4.80	6.19	15.48	8.82
8	Amlani	-	9.17	9.72	6.15	8.35
	AVERAGE	11.14	8.12	11.71	19.19	12.58

Source: Primary Survey, 2015

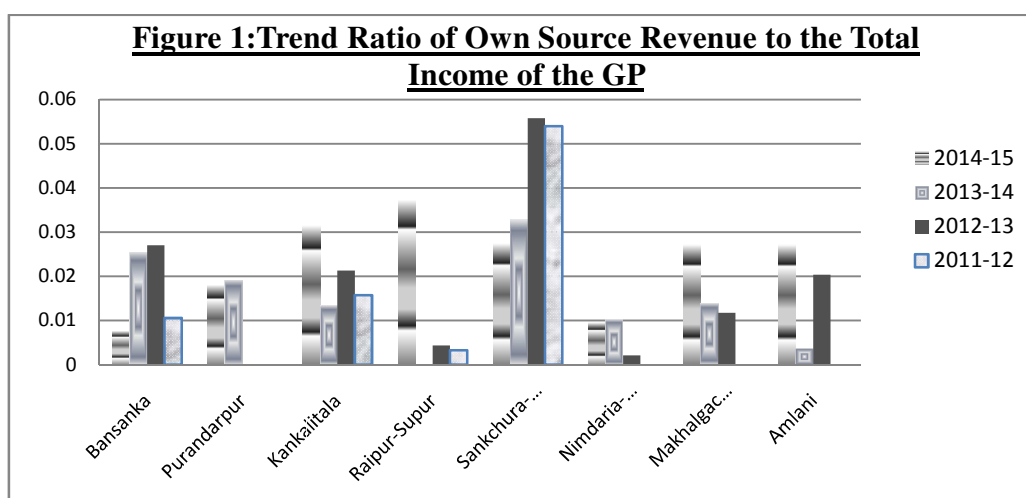
Kankalitala and Raipur-Supur GPs are 11.64 percent, 9.42 percent and 10.86 percent respectively. In North 24 Parganas, the percentage of untied fund to the total fund received by the GP also exhibited an increasing trend except Amlani GP. The average percentage figure over the same period is 21.50 percent for Sankchura Bagundi GP, 13.44 percent for Nimdaria-Kodalia GP, 8.82 percent for Makhalgachha GP and 8.35 percent for Amlani GP. If we consider all the GPs together then, on an average, percentage of untied funds to the total fund received by the GPs varies from 8 percent to 21 percent with an average of 12 percent over the period under consideration. Clearly, the percentage of untied fund received against the total fund for all the GPs is not very significant which limits the autonomy of the panchayats in using such funds according to the local needs and priorities. Following Oommen⁶, we have also calculated the revenue autonomy ratios (defined as the ratio of Panchayats' own income to their total income) for the surveyed panchayats (Table 2). It can be said that lower the ratio lower will be the degree of financial autonomy of the Panchayat. Table 2 demonstrates that these ratios for all the GPs under the present study are quite poor.

Table 2: Ratio of OSR to the Total Income of the Gram Panchayat

District	Sl. No.	Gram Panchayats	Percentage of OSR to the Total Fund			
			2011-12	2012-13	2013-14	2014-15
Birbhum	1	Bansanka	0.011	0.027	0.025	0.008
	2	Purandarpur	-	-	0.019	0.018
	3	Kankalitala	0.016	0.021	0.013	0.031
	4	Raipur-Supur	0.003	0.004	0.000	0.037
North 24 Parganas	5	Sankchura-Bagundi	0.054	0.056	0.033	0.027
	6	Nimdaria-Kodalia	-	0.002	0.010	0.010
	7	Makhalgachha	-	0.012	0.014	0.027
	8	Amlani	-	0.020	0.004	0.027

Source: Primary Survey 2015

From the diagrammatical representation of these ratios (Figure 1), it is difficult to find a common trend across the GPs. The share of OSR in the total income of the GP is so negligible that from the slightest change in the ratio in either direction, we cannot infer anything about the extent of change in the autonomy or its plausible consequences on the performance of GP. We can only say that measuring GP's financial autonomy through OSR only gives us a depressing picture of the financial devolution of power the lowest level of PRIs.



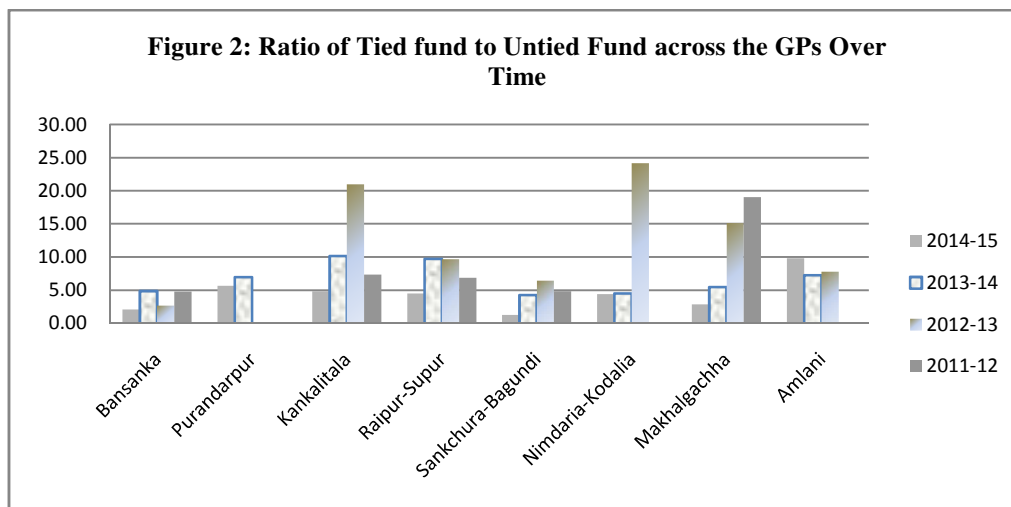
Vyasulu⁷ suggested another alternative measure of autonomy as the ratio of tied fund to the untied fund. Considering the fact that the grants given to the PRIs are their constitutional right, this measure seems to be more appropriate, as this tells how autonomous the PRIs are in spending their rightful funds. In the Table 3, we have estimated the financial autonomy of the GPs through the alternative measure suggested by Vyasulu⁷.

Table 3: Ratio of Tied Fund to the Untied Fund Received by the GPs Surveyed

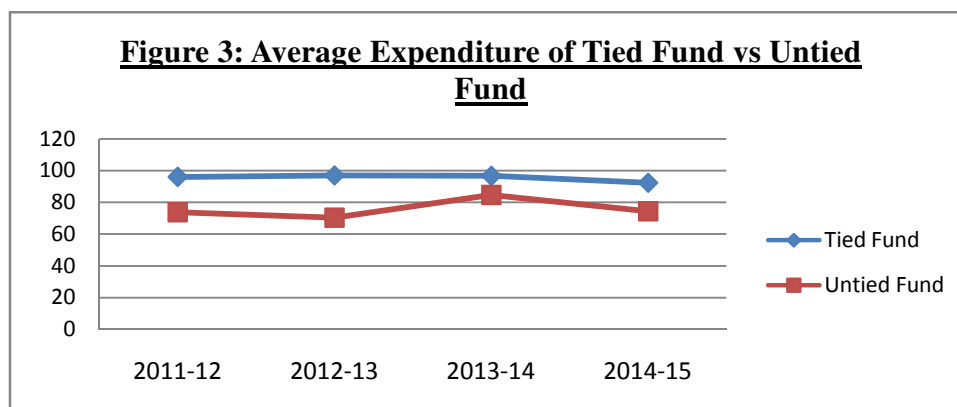
District	Sl. No.	Gram Panchayats	Ratio of tied fund to untied fund received by the GP			
			2011-12	2012-13	2013-14	2014-15
Birbhum	1	Bansanka	4.80	2.68	4.89	2.07
	2	Purandarpur	-	-	7.00	5.64
	3	Kankalitala	7.36	21.00	10.17	4.84
	4	Raipur-Supur	6.85	9.68	9.75	4.50
North 24 Parganas	5	Sankchura-Bagundi	4.85	6.44	4.30	1.26
	6	Nimdaria-Kotalia	-	24.19	4.55	4.40
	7	Makhalgachha	19.04	15.18	5.51	2.84
	8	Amlani	-	7.82	7.28	9.79

Source: Primary Survey, 2015

Here, higher values of the ratios imply lower financial autonomy of the GP. Interestingly, it can be observed that in almost all the GPs, except Amlani in North 24 Parganas, are showing a decreasing trend in the ratio implying better financial autonomy of the same over the period. The ratio has also been shown in the following diagram (Figure 2), which clearly shows the decreasing trend in almost all the surveyed GPs from 2011-12 to 2014-15.



Let us now turn our attention to the question of how the GPs are spending their money. Given the broad categorisation of total fund received by the GPs into tied fund and untied fund, it has been observed that GPs are more comfortable with spending tied fund with a fixed guideline rather than untied one. In our study, the financial data of the 8 GPs shows that on an average 76.53% of their untied fund is reported to be spent by the GPs compared to on an average 95.96% expenditure of their tied fund. It is quite evident that there is variation in the performance in terms of expenditure of the funds over the period under consideration (Figure 3). Nevertheless, expenditure of tied fund has dominated that of untied fund throughout the years. Among the various components of tied and untied funds, MGNREGS fund contributes the major share of tied funds received by the GPs. The political and administrative priority given to MGNREGS funds could be one explanation for this particular pattern observed in the data.



Also we have observed that the per capita expenditure of untied fund (Table 4) over that of tied fund (Table 5) is significantly low and this trend is maintained over the period under consideration.

Table 4: Per Capita Expenditure of Untied Fund across the GPs under Survey

District	Sl. No.	Gram Panchayats	Per capita Expenditure of Untied Fund			
			2011-12	2012-13	2013-14	2014-15
Birbhum	1	Bansanka	57.59	333.34	226.86	132.18
	2	Purandarpur	-	-	164.96	284.80
	3	Kankalitala	216.75	106.83	190.56	265.35
	4	Raipur-Supur	196.67	106.60	179.78	205.60
North 24 Parganas	5	Sankchura-Bagundi	97.64	94.53	95.21	59.14
	6	Nimdaria-Kotalia	-	95.74	123.58	177.00
	7	Makhalgachha	41.13	79.06	62.13	114.62
	8	Amlani	-	25.62	46.25	70.47

Source: Primary Survey, 2015

Table 5: Per Capita Expenditure of Tied Fund across the GPs

District	Sl. No.	GPs	Per capita Expenditure of Tied Fund			
			2011-12	2012-13	2013-14	2014-15
Birbhum	1	Bansanka	1226.01	1119.14	1898.91	772.65
	2	Purandarpur	-	-	1478.83	1606.82
	3	Kankalitala	1725.32	2267.56	2186.43	1276.64
	4	Raipur-Supur	1193.47	1301.94	1818.78	900.21
North 24 Parganas	5	Sankchura-Bagundi	590.14	623.35	554.19	268.68
	6	Nimdaria-Kotalia	-	2269.40	626.22	820.39
	7	Makhalgachha	782.37	1204.58	667.88	592.57
	8	Amlani	-	373.24	717.43	719.12

Source: Primary Survey, 2015

Table 6 represents percentage utilisation of untied fund with respect to the total fund received and untied fund received by the GPs in a particular financial year. In case of utilisation with respect to the total fund received, the shares turned out to be quite low in all the GPs.

Table 6: Utilisation pattern of Untied Fund

District	Sl. No.	Gram Panchayats	Percentage Utilisation of Untied fund to the total Fund				Percentage Utilisation of Untied fund to the Untied Fund Received			
			2011-12	2012-13	2013-14	2014-15	2011-12	2012-13	2013-14	2014-15
Birbhum	1	Bansanka	13.12	17.63	13.23	22.35	21.77	74.93	57.20	34.20
	2	Purandarpur	-	-	10.15	13.13	-	-	76.93	99.60
	3	Kankalitala	8.91	3.78	8.92	16.06	91.73	98.74	88.41	99.26
	4	Raipur-Supur	9.53	7.95	8.03	17.95	88.01	78.33	95.09	93.90
North 24 Parganas	5	Sankchura-Bagundi	13.01	9.60	18.35	45.04	70.55	93.18	65.46	25.45
	6	Nimdaria-Kodalia	-	3.90	19.10	17.32	-	99.95	81.26	93.30
	7	Makhalgachha	4.80	6.19	15.48	20.36	99.74	98.61	51.16	53.06
	8	Amlani	-	9.17	9.72	6.15	-	49.25	47.60	91.60

Source: Primary Survey, 2015

Thus, it can be said from the analysis of the financial data that the amount of untied fund transferred to the GPs from state and central government is much lower than that of tied fund. So the GPs lack fiscal autonomy with the transferred amount from higher levels of Government. Also, the amount of own source revenue collected by these GPs over the years does not give them much leeway to undertake development activities. They are spent mostly on repairing work, contingencies and on refreshment expenditures during the meeting of the Panchayat. Unless and until the Panchayats are assigned with greater power to collect taxes and higher share of fiscal transfer on account of untied fund, there is little hope that the devolution of power to the lowest level of the govt. will be as effective as it was envisaged in the 73rd Constitutional Amendment.

An Econometric Analysis of Fiscal Disparities of the GPs

Further, an attempt has been made to identify the determinants of fiscal disparities across the Gram Panchayats under consideration as that would be helpful in framing appropriate fiscal policy to strengthen the financial health of the GPs in general. The dependent variables include per capita OSR including tax and non-tax revenues of the GPs, per capita grants received by the GPs and per capita total expenditure incurred by the GPs. Independent variables are size of population, proportion of SC/ST population and literacy rate (Table 7). Here, population is used to measure size of the GP and the percent of SC/ST population and the literacy rate are used as the proxy variables for measuring the level of economic development.

Table 7: Independent Variables

Variables	Description
Population size	Total GP population (natural log transformed)
Proportion of SC/ST population	Proportion of SC/ST population in total population(natural log transformed)
Literacy rate	Proportion of population aged seven years or above who can read and write(natural log transformed)

Source: Calculated on basis of information provided by Primary Census Abstract 2011.

In particular, the expected relationship between the population and own source revenue of the GPs is positive as the GPs with larger population would experience greater levels of economic activity and therefore higher capacity to generate own source revenue. In contrast, population size is expected to have a negative relationship with the per capita grant received and per capita spending by the GPs. The fixed cost related to general administration constitutes a significant portion of the total expenditure of the GPs and, so, the same is expected to fall for the larger GPs. Moreover, government may provide higher grant to the GPs with smaller population. A higher percentage of SC/ST population suggests a greater concentration of poor households. So, we expect a negative relationship between percentage of SC/ST population and per capita OSR and a positive relationship between percentage of SC/ST population and per capita grant. Further, greater amounts of government grants to the poorer GPs with heavier concentration of SC/ST population is likely to result in higher per capita expenditures and the relationship between percentage of SC/ST population and per capita total expenditure is assumed to be positive. On the other hand, literate people are expected to show greater willingness for payment of taxes, leading to higher revenue generation. So, we expect a positive relation between the literacy rate and per capita OSR of the GPs. The literacy rate is expected to have a negative effect on the level of per capita grant received; because it is hypothesized that higher literacy rate is associated with a smaller concentration of below-poverty line population. We have hypothesized a positive relationship between the literacy rate and per capita GP expenditure as literate people are more likely to demand better services. We have used multi-variable regression to model the determinants of fiscal disparities observed among the GPs in West Bengal.

Per Capita Own Source Revenue

The OLS estimates of the determinants of variations in OSR are represented in Table 8. The population variable has the expected positive sign and is significant for the year 2015. The higher is the population; greater is the level of economic activities. The effects of other two variables have turned out to be statistically insignificant.

Table 8: OLS Estimation of Determinants of Variations in Revenue Autonomy Ratios of GPs

[Dependent Variable (Y_i) = Log of RA]

<i>Explanatory Variables</i>	<i>Estimated Coefficients</i>
Log Population	1.96* (2.28)
Log Percent of SC/ST Population	0.54 (1.92)
Log Literacy Rate	-5.31 (-0.56)
Constant	-2.41 (-0.06)
.Adj R ²	0.79

Notes: i) Figures in first brackets are computed t-statistics.

ii) *, ** and *** imply significance at 10, 5 and 1 percent levels respectively.

Per Capita Grant

Table 9 represents the OLS estimates of determinants of variations in per capita grants received by the GPs in West Bengal. Population size significantly affects the quantum of grant amount received by the GPs. This implies that per capita grant is distributed more towards the GPs with smaller population which, in turn, indicates the equalizing nature of grant. We have got the expected sign with respect to population and statistically significant as well. The marginal effects of variables related to SC/ST population and literacy rate are

statistically insignificant. The positive marginal effect of literacy rate, although insignificant, indicates it's counter-equalizing influence in the distribution of grants. It is important to note here that although SC/ST population and literacy rate were generally considered as two important constituents of distribution formula for distribution of grant among the GPs but, in reality, the Third State Finance Commission found the lack of transparency in the actual distribution formula. This could be one of the reasons for insignificant impacts of these variables.

Table 9: OLS Estimation of Determinants of Variations in Grants received by GPs

<i>[Dependent Variable (Y_i) = Log of Per Capita Grant]</i>	
<i>Explanatory Variables</i>	<i>Estimated Coefficients</i>
Log Population	-1.84*** (-4.38)
Log Percent of SC/ST Population	-0.12 (-1.12)
Log Literacy Rate	8.22 (2.02)
Constant	-11.7 (-0.77)
Adj R ²	0.73

Notes: i) Figures in first brackets are computed robust standard errors.

ii) *, ** and *** imply significance at 10, 5 and 1 percent levels respectively.

Per Capita Expenditure

The OLS estimates of the determinants of variations in total expenditures are represented in Table 10. Population size exerted the negative, *albeit* insignificant, impact on the per capita expenditure. The marginal effect of SC/ST population variable is negative and significant. It is true that GPs, with higher proportion of SC/ST population, need to spend more to serve their people. However, the negative effect could be due to the fact that either the poorer GPs in our sample did not receive adequate grant or they did not have the capacity to utilize the grant received, resulting in lower per capita expenditures. The association between literacy rate and per capita expenditure is statistically insignificant. This could be due to the fact that higher literacy rate did not generate stronger demand for local services in the sampled GPs.

Table 10: OLS Estimation of Determinants of Variations in Total Expenditure of GPs

<i>[Dependent Variable (Y_i) = Log of Per Capita Total Expenditure]</i>	
<i>Explanatory Variables</i>	<i>Estimated Coefficients</i>
Log Population	-0.81 (-0.71)
Log Percent of SC/ST Population	-0.89* (-2.36)
Log Literacy Rate	-21.8 (-1.71)
Constant	108.33* (2.14)
Adj R ²	0.75

Notes: i) Figures in first brackets are computed robust standard errors.

ii) *, ** and *** imply significance at 1, 5 and 10 percent levels respectively.

Summing Up

The strategy of strengthening of Panchayats is inextricably intertwined with empowering them to raise revenues from tax and non-tax sources assigned to them. However, In India the functional empowerment of rural local bodies is not backed by the requisite financial provision. The Panchayats lack financial autonomy to conceive and implement program as per their needs and priorities. In our study area, it has been observed that 'land and house tax' is the only tax that the villagers pay to the Panchayats. The amount is not very significant, varies from Rs10 to Rs.100 with few exceptions. Also from 'Own Source Revenue' data collected from Panchayat we have seen that the major contributor to the OSR is 'land and house' or property tax. Other heads are there but the collections from them are irregular and insignificant in nature. Although in North 24 Parganas we have found in some GPs the licence fee of the brick kline and revenue from selling of trees also have contributed significantly. Moreover, the percentage of untied fund received against the total fund for all the GPs is not very significant which limits the autonomy of the panchayats. Necessary policy prescription is, therefore, required to financially empower the panchayats. 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. Attempt should be made to improve the fiscal autonomy of the panchayats to ensure greater tax powers to them. It is only when the tax powers are assigned to the panchayats, then only they would be able to improve the standards of public services, ensure greater efficiency and accountability, as there would be greater correspondence between tax payments and the benefit from public services.

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