

# Fiscal Transfers to Local Bodies in Karnataka: Trends and Policy Issues

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## Abstract

*Local governments in Karnataka are highly dependent on state government's financial support. Due to excessive dependence, the performance of local bodies becomes vulnerable to any adverse changes in the resource transfer. The vulnerability is greater when the grant giving agencies themselves are under fiscal stress. This paper observes that devolution to local bodies is highly vulnerable to State's overall fiscal position and create uncertainty in the fund flow. This phenomenon is more predominant for the PRIs and to plan/development funding for the urban local bodies. There has been a sharp decline in plan funding from the state's plan outlay from both the state and Central Government sources reiterating the fact that the non-development component continues to be on the rise. The nature of support provided by the Centre and states are substituting for one another, which once again raises the issue of predictability of assured funding to undertake developmental activities.*

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## 1. Introduction

Local governments in India in general and Karnataka in particular have depicted a large-scale dependence on state governments' financial support in discharging their functions and provision of services. The importance of fiscal autonomy in the decentralisation process is amply highlighted in the literature. "A critical factor in improving fiscal autonomy of rural local bodies is to enhance their own revenues. Improving own revenues is important also to strengthen 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. At present, the rural local bodies at district and block levels do not have worthwhile own revenue sources" (Rao et.al., 2011). The excessive dependence of the local bodies on transfers leads to a situation wherein the decentralization process tends to get vitiated and the performance of local bodies becomes vulnerable to any adverse changes in the resource transfer. In addition, the acclaimed advantages of decentralization in toning up the

service delivery by reflecting the local needs get nullified in the event the transfers are from the higher levels of government with strings attached to it. Though the above issues have been addressed by the existing studies, a more important issue as to how vulnerable the local bodies become when the grant giving institutions themselves undergo fiscal stress has not been adequately addressed. The extent and nature of transfers tend to largely depend on fiscal capacity of a state government supporting the local bodies, which invariably happen after providing adequate resources for the state's own commitments. Or, the resource transfers to the local bodies are largely determined by the fiscal space available with the state government. However, expanding the fiscal space is possible either by augmenting the revenue resources or achieving allocative efficiency in expenditure, or a combination of both.

Fiscal performance of Karnataka state has been observed to be sound from the trends in broad fiscal indicators such as fiscal and revenue deficits, development and non-development expenditure and own tax resource generation, especially since

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the enactment of Fiscal Responsibility Act by the Government of Karnataka (GoK) in 2002. However, it is important to note in the context of state's furtherance of its development efforts, the state already has a huge committed expenditures, such as, salaries, pensions, interest payments, subsidies, administrative expenditure and devolution to PRIs and ULBs. These expenditures have increased from 89 percent of uncommitted revenue receipts to 95 percent in 2012-13 with some decrease subsequently to 82 percent (GoK, 2015-16). This indicates that the state government's capacity to fund any new programmes at the state level or extend support to the local bodies is small.

Karnataka state has pioneered several reform initiatives and the state's decentralisation efforts are also well recognised among Indian states. The state has largely honoured the requirement of appointing the State Finance Commissions. To date, four State Finance Commissions have given their recommendations. This paper focuses on the trends in actual transfers vis-à-vis the recommendations of the first three Finance Commissions as the recommendations of the Fourth Finance Commission have recently been submitted. State's fiscal condition also tends to influence the transfers to local governments, uncertainties in revenue flows and revenue shortfalls that result in higher levels of deficit with a potential threat to transfers to the lower levels of government. This is consistent with the observation of the World Bank (2004). For instance, the non-plan transfers may tend to get sticky due to its committed nature, but the plan funding may get adversely affected.

In the above background, this paper aims to analyse the trends in resources of the rural and urban local bodies in Karnataka with special reference to fiscal support from the state and the Union government and examine their behaviour vis a vis the state's fiscal health. Unpredictability of funding can be a potential threat to fiscal

autonomy of the local bodies and thwarts success of fiscal decentralisation process. An important cause for concern for the functioning of the local bodies in India has been that despite the Constitutional status being accorded with the framing of the 73rd and 74th amendments to the Constitution, the fiscal dependency on the Centre and state governments has been high, vitiating the very purpose of fiscal decentralisation.

This paper is based on secondary sources of data. Data relating to state's own resources and expenditure are collected from the state budget documents. Databases of Rural Development and Panchayat Raj and Urban Development departments and Budget Link documents are used to collect details on the state support to the local bodies. In the data collection process, limitations on data availability and data discrepancies between different sources are observed. Hence, data gaps are evident for few years in the present paper.

Rest of the paper is structured as follows. Section 2 analyses the broad trends in resource and expenditure of the local bodies in Karnataka comprising of Rural Local Bodies or Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs). Section 3 presents a discussion of transfers to local bodies with reference to long term trends and State Finance Commission recommendations vis-a-vis the actual allocation of funds. Transfers effected to the local bodies in the context of state's fiscal position are analysed in section 4. Issues concerning district sector plan outlay and the plan support by Centre and state are discussed in section 5. Section 6 concludes the paper with implications.

## **2. Trends in resources and expenditure of the local bodies**

Resource base of the PRIs consist of own revenue and assigned revenue. Assigned revenues comprises State Finance Commission (SFC) grants, Central Finance Commission (CFC)

grants, and the state and central government grants for maintenance and development. Distribution of PRI resources by major sources in Table-1 reveals that the share of PRI resources from the state grants has been higher and increasing. For instance, the share has increased from 77 percent in 2005-06 to 92 percent in 2015-16. A sharp increase is observed in 2015-16 is on account of

the restructuring of Centrally Sponsored Schemes (CSS) and resultant reduction in transfers under the CSS schemes. The own resource mobilization by the PRIs has had an absolute increase from Rs. 111.96 crore in 2005-06 to Rs 228.84 crore in 2014-15, although its share in the total resources has not only been low, but also declined from 1.14 percent to 0.89 percent.

**Table: 1: Resources of Panchayat Raj Institutions in Karnataka: 2005-06 to 2015-16**

(Rs. Crores)

Resources by sources	2005-06	2006-07	2007-08	2008-09	2009-10	2011-12	2012-13	2013-14	2014-15	2015-16
Own Revenue	111.96 (1.14)	138.64 (1.28)	133.64 (1.06)	144.74 (1.07)	NA	312.08 (1.80)	269.09 (1.29)	176.93 (0.69)	228.84 (0.89)	NA
CFC transfers (12th and 13th Finance Commission)	177.6 (1.81)	177.6 (1.64)	177.6 (1.41)	177.6 (1.31)	177.6 (1.14)	769.58 (4.43)	1036.49 (4.96)	1350.87 (5.26)	977.85 (3.79)	NA
Grants from State Govt and assigned revenue	7580.47 (77.39)	7962.34 (73.57)	9488.13 (75.43)	9841.85 (72.73)	10380.7 (66.53)	13340.83 (76.76)	16622.14 (79.46)	1966 9.19 (76.64)	21004.52 (81.36)	21385.43 (92.55)
Central Government grants for CSS/State Schemes	1815.33 (18.53)	2372.98 (21.93)	2680.4 (21.31)	3285.09 (24.28)	5032.2 (32.25)	2764.62 (15.91)	2837 (13.56)	4243.92 (16.54)	3426.05 (13.27)	1573.58 (6.81)
Other Receipts	109.74 (1.12)	171.24 (1.58)	99.57 (0.79)	82.29 (0.61)	13.28 (0.09)	192.66 (1.11)	153 (0.73)	224.12 (0.87)	179.2 (0.69)	146.94 (0.64)
Total resources	9795.1 (100)	10822.5 (100)	12579.34 (100)	13531.57 (100)	15603.78 (100)	17379.77 (100)	20917.72 (100)	25665.03 (100)	25816.43 (100)	23105.95 (100)

**Source:** Economic Survey of Karnataka (2015-16 and 2016-17), Planning, Programme Monitoring and Statistics Department, Government of Karnataka, Bengaluru.

**Note:** Figures in parentheses are percent to annual total resource. NA refers to not available.

Resources of the ULBs by sources is presented in Table 2 from 2013-14 to 2016-17. Tax devolution has the largest and increased share from 50.88 percent in 2013-14 to 60.31 percent in 2016-17 and grants for state and centre schemes

have remarkably declined from 36.7 percent to 22.83 percent. Owing to the absolute decline under this component from Rs 2380 crore in 2013-14 to Rs 1366 crore, the aggregate resources to the ULBs by all sources have declined from Rs 6486 crore to Rs 5980 crore.

**Table 2: Resources of Urban Local Bodies in Karnataka : 2013-14 to 2016-17**

(Rs. Crores)

Resources by source	2013-14	2014-15	2015-16	2016-17
Tax Devolution	3300 (50.88)	3346 (49.39)	3588 (55.76)	3607 (60.31)
Grants from Finance commission	806 (12.42)	985 (14.54)	562 (8.73)	1008 (16.86)
Grants for State and centre Schemes	2380 (36.70)	2443 (36.06)	2285 (35.50)	1366 (22.83)
<b>Total</b>	<b>6486</b> (100)	<b>6773</b> (100)	<b>6435</b> (100)	<b>5980</b> (100)

**Source:** Department of Urban Development, GoK**Note:** Figures in parentheses indicate percentage share in total resources

In addition to the Finance Commission recommended transfers to the ULBs, support is provided by the state government to the parastatals, such as Karnataka Urban Water Supply and Drainage Board (KUWS&DB), Bangalore Water Supply and Sewerage Board (BWSSB), and Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC). In the

absence of published data of state support to these institutions, descriptions are limited to 2011-12 based on data compiled for the Fourth State Finance Commission. Table 3 shows that Finance Commission grants constitute 30 percent share in the total plan support for urban development, and 42 percent of that to the parastatals.

**Table 3: Plan Allocation to Karnataka's Urban Development Department : 2011-12**

	Allocation by Source	Plan	SCP	TSP	SDP	Total Plan	% to total Plan Allocation
A	Total KUWS&DB Allocation	244	19	8	0	271	5.68
B	Total BWSSB Allocation	1150	0	0	0	1150	24.10
C	Total KUIDFC	474	7	3	100	584	12.24
Total I	Total (A+B+C)	1868	26	11	100	2005	42.02
Total II	Total State Govt. Finance grants	1448	0	0	0	1448	30.35
Total III	Total 13th FCG	100	0	0	0	100	2.10
Total IV	Total Others*	1118	100	0	0	1218	25.53
Total V	Total Plan Allocation to UDD (I+II+III+IV)	4534	126	11	100	4771	100

**Source:** Department of Urban Development, Government of Karnataka**Notes:** SCP: State Component Plan, TSP: Total State Plan, SDP: Special Development Program, FCG: Finance Commission's Grants, UDD: Urban Development Department

On the expenditure side, there has been a considerable increase in PRI expenditure from Rs 3454 crore in 2004-05 to Rs 14280 crore in 2016-17 amounting to 3.13 times increase. Its distribution by salary and non-salary component reveals that

the share of salary component in the total PRI allocation is over 70 percent throughout (Table 4). Consequently, the non-salary component as varied from about 23 percent in 2004-05 to 28 percent in 2010-11 and to 29 percent in 2016-17.

**Table 4: Composition of PRI expenditure by salary and non-salary expenditures in Karnataka: 2004-05 to 2016-17**

(Rs. Crore)

Expenditure components	2004-05	2007-08	2010-11	2013-14	2015-16	2016-17
Salary	2661 (77.04)	4362 (72.81)	5983 (72.13)	8989 (75.99)	9919 (73.37)	10161 (72.16)
Non-salary	793 (22.96)	1629 (27.19)	2312 (27.87)	2840 (24.01)	3601 (26.63)	4119 (28.84)
Total expenditure	3454 (100)	5991 (100)	8295 (100)	11829 (100)	13520 (100)	14280 (100)

**Source:** GoK, Link Documents to Budget: Various Years

**Note:** Figures in parentheses are share (%) to total expenditure

### 3. Transfers to local bodies

The resource base of the local bodies comprises of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, and state government and central government grants for maintenance and development purpose. Trends in transfers to local bodies from the state government from 1997-98 through 2016-17 is analysed below.

Transfers to local bodies in Karnataka from the state government have increased by 9.7 times

from Rs 3320.81 crore in 1997-98 to Rs 35538.62 crore in 2016-17 (Table 5). Of the total resources transferred, the share of ULBs has doubled from 8.28 percent to 16.83 percent and that of rural local bodies declined from 91.72 percent to 83.17 percent. On an average, PRIs account for about 85 percent share in the total. However, transfers to ULBs have increased by 21 times, and for PRIs by 8.7 times.

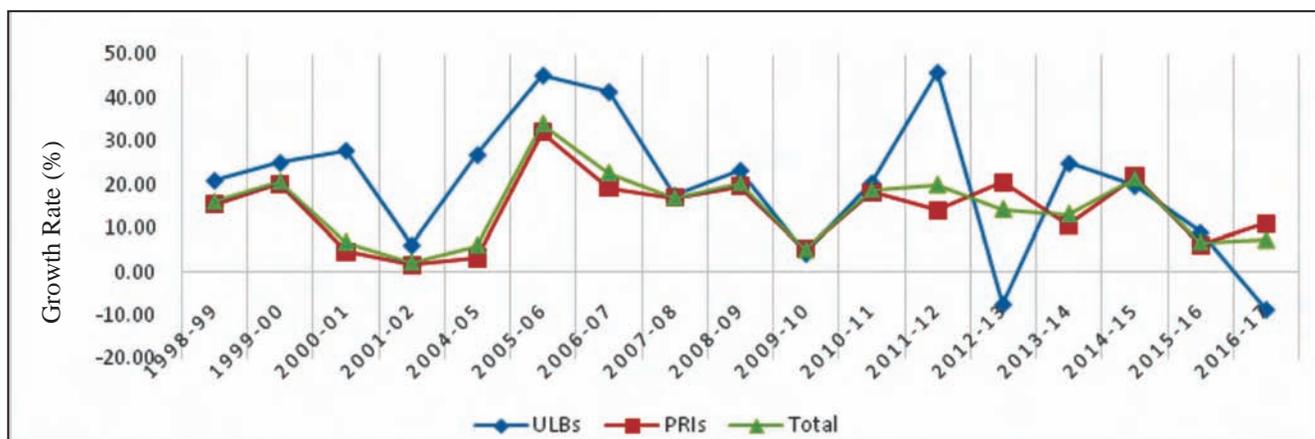
**Table 5: Trends in transfers to Local Bodies in Karnataka : 1997-98 to 2016-17**

Local Bodies	1997-98	2000-01	2004-05	2007-08	2010-11	2013-14	2016-17
ULBs	274.81 (8.28)	531.43 (10.71)	798 (14.02)	1926 (17.59)	2978 (18.11)	5020.44 (19.66)	5980.31 (16.83)
PRIs	3046 (91.72)	4432.2 (89.29)	4893.41 (85.98)	9024.13 (82.41)	13464.97 (81.89)	20510.18 (80.34)	29558.31 (83.17)
Total transfers	3320.81 (100)	4963.63 (100)	5691.41 (100)	10950.13 (100)	16442.97 (100)	25530.62 (100)	35538.62 (100)

**Source:** Medium Term Fiscal Plan, Link Document and other policy documents of Finance Department of GoK- Various years.

Figure 1 shows annual growth rate of transfers to the local bodies. Apparently, growth rate of transfers to ULBs have been higher than that of PRIs, although the former has revealed considerable fluctuation over time and at times has even been negative indicating higher unpredictability.

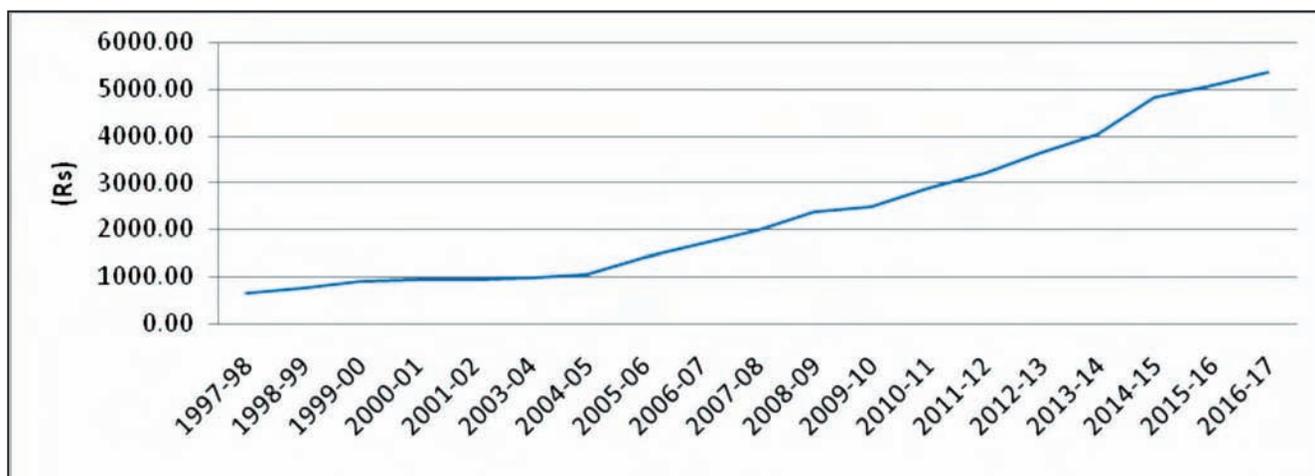
**Figure 1: Annual Growth Rate of Transfers to Local Bodies in Karnataka: 1998-99 to 2016-17**



**Source:** Medium Term Fiscal Plan, Link Document and other policy document of Finance Department of GoK- Various years.

Further, total transfers to the local bodies show a sizeable increase after adjusting to the population. For instance, per capita transfers to local bodies in Figure 2 shows a fivefold increase in per capita transfers to the local bodies in Karnataka.

**Figure 2: Per capita transfers to the local bodies in Karnataka: 1997-98 to 2016-17**



**Source:** Author's calculation based on the source mentioned in Table 5

### 3.1. State Finance Commissions' recommendations vis-à-vis Actual allocation of funds

As per the Karnataka Panchayat Raj Act, 1993 the state government must constitute a State Finance Commission once in five years to make recommendations on the sharing of proceeds of taxes between the state government and the local bodies, and grants to be given from the state's Consolidated Fund. Karnataka has appointed four SFCs till date with the first SFC award covering the period 1997-98 to 2001-02; second SFC award covering 2006-07 to 2010-11 and third SFC award covering 2010-11 to 2015-16. The Fourth SFC constituted on 21 December 2015 has recently submitted its report and its award period is 2018-19 to 2022-23. The present paper has limited its discussion to the first three finance Commissions.

It is important to examine the trends in share of transfers in the Non- Loan Net Own Revenue Resources (NLNORR). This comprises the state's own revenue inclusive of both tax and non-tax sources after netting out the cost of collection charges. The third State Finance Commission had recommended that NLNORR be used as the divisible pool as opposed to the first and second State finance commission that had recommended Non-Loan Gross Own Revenue Receipts (NLGORR). The divisible pool should consist of net proceeds of taxes, tolls, duties, fees levied and collected by the state government. In order to make the long-run comparison, the overall trends in the transfers to the local bodies have been traced as a percent to NLNORR.

Details of the SFC recommendations vis-à-vis the actual devolution by each of the SFC periods are presented in Table 6. There has been a considerable deviation between the SFC recommendations and the actual assignment to the local bodies. The ULBs have had an underfunding or lesser resource availability as opposed to the recommended level. The PRIs have had larger absolute allocations during most of the years except for two years during the Second SFC period. An important aspect to be remembered is that, as

discussed earlier, urban development is supported by the state government by way of funds provided to various parastatals whereas PRIs' support is limited to the SFC funds.

### 4. Transfers vis-à-vis state's fiscal position

Figure 3 gives the share of allocation to the local bodies in the state's aggregate expenditure (revenue and capital accounts) from 1999-00 to 2016-17. An overall decline in allocation is evident since 1997-98. The variations in the share show that the allocations are largely reflecting the overall state's fiscal situation. The share declined from 1997-98 to 2004-05, subsequent to which there has been a marginal increase until 2008-09. The decline in 2009-10 has continued for the rest of the reference period. Karnataka's fiscal situation was precarious until 2003-04, substantially improved with the framing of Fiscal Responsibility Act in 2002-03 resulting in a significant improvement in the resource position. The global recession that occurred in 2008-09 adversely affected the state's resource position due to the tax concessions and stimulus measures in the form of enhanced spending.

It is important to note that despite an absolute overall increase in the transfers provided over time, they are often adversely affected by the state's overall fiscal position. The state's fiscal adversities reflected in the shared resources with the local bodies especially, a decline during 1997-98 until 2004-05 and once again from 2009-10.

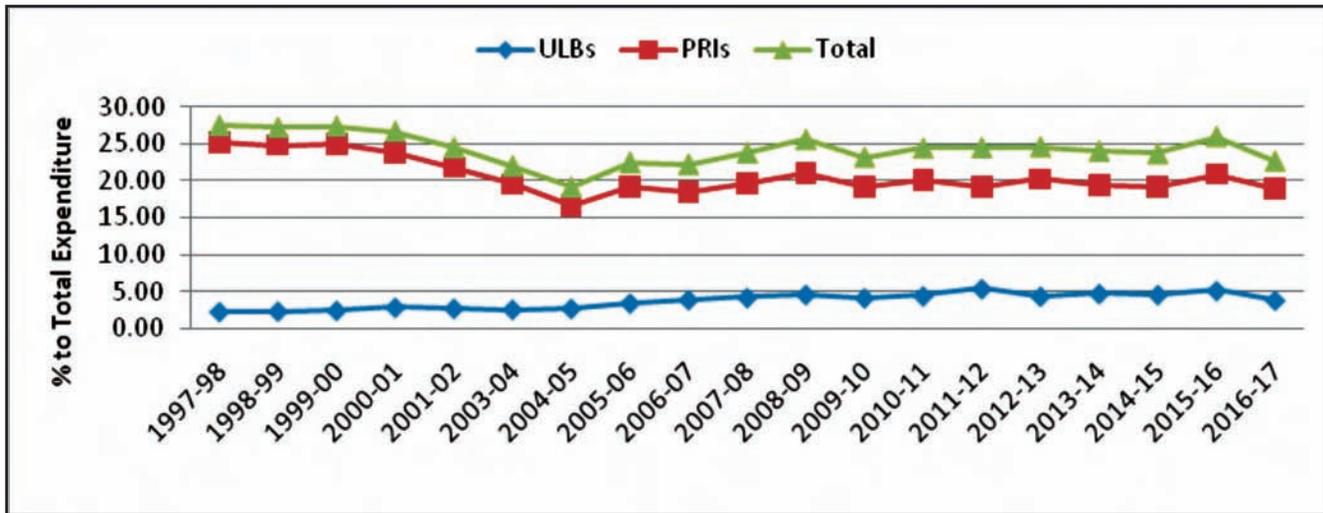
In short, the long-run trends reveal a clear decline as depicted from 1997-98 till 2004-05 after which it increased until 2008-09 followed by a decline that continued till the end of the reference period. However, this decline is higher for PRIs than ULBs as the share of ULBs continued to increase. The share of the budget allocation to the local bodies in state's total expenditure well above 25 percent in late nineties had dropped to 20 percent in 2004-05, the increase in the subsequent period has never reached the level prevailing in late nineties.

**Table 6: SFC recommended transfers vis-a vis actual transfers in Karnataka: 1997-98 to 2015-16**

Year	Actual Transfers to Local Bodies (Rs. in crore)			Allocation Recommended by SFC (crore)			Difference between actual and SFC allocation (Rs. in crore)		
	ULBs	PRIs	Total	ULBs	PRIs	Total	ULBs	PRIs	Total
First State Finance Commission									
1997-98	275	3046	3321	415	2349	2763	-140	697	558
1998-99	332	3520	3853	454	2574	3029	-122	946	824
1999-00	416	4232	4648	505	2863	3368	-89	1369	1280
2000-01	531	4432	4964	578	3275	3853	-47	1157	1111
2001-02	564	4507	5071	591	3350	3941	-27	1157	1130
Second State Finance Commission									
2006-07	1639	7712	9351	2192	8768	10960	-553	-1056	-1609
2007-08	1926	9024	10950	2348	9390	11738	-422	-366	-788
2008-09	2374	10802	13176	2464	9857	12322	-90	945	854
2009-10	2474	11374	13848	2713	10852	13565	-239	522	283
2010-11	2978	13465	16443	3347	13386	16733	-369	79	-290
Third State Finance Commission									
2011-12	4344	15375	19719	4992	11483	16475	-648	3892	3244
2012-13	4018	18531	22550	5690	13087	18777	-1672	5444	3773
2013-14	5020	20510	25531	6478	14898	21376	-1458	5612	4155
2014-15	6011	24988	30999	7089	16305	23395	-1078	8683	7604
2015-16	6549	26576	33125	8069	18559	26628	-1520	8017	6497

Source: GoK, Finance Department

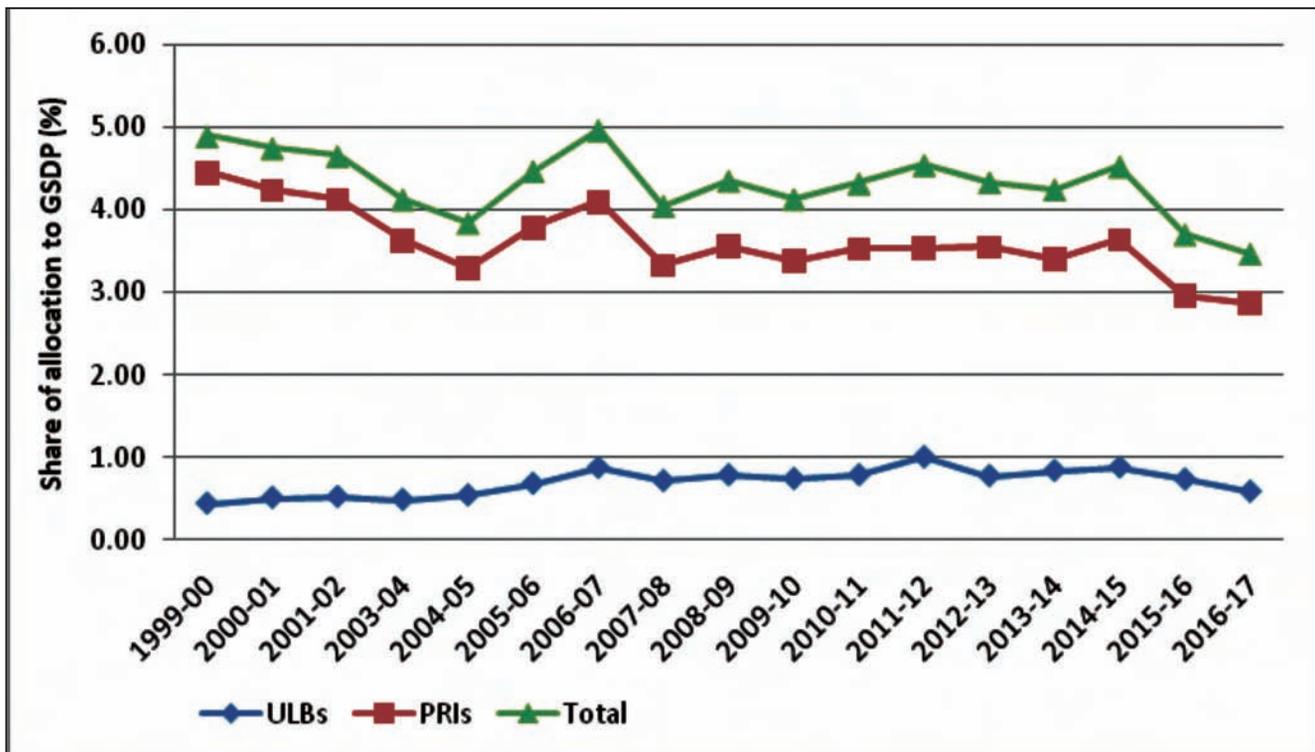
Figure 3: Allocation to Local Bodies in Karnataka: Share in Total Expenditure



Source: Author's calculation based on the source mentioned in Table 5

The allocation to local bodies as a percent of Gross State Domestic Product (GSDP) has been lower than 5 percent and reveals similar pattern with the overall share declining from 4.89 percent in 1998-99 to 4.5 percent in 2015-16 dropping further to 3.18 percent in 2016-17 (Figure 4).

Figure 4: Share of Allocation to Local Bodies in GSDP of Karnataka: 1999-00 to 2016-17



Source: Author's calculation based on the source in Table 5

#### 4.1. Transfers in relation to NLNORR

**Table 7 – Transfers to local bodies in Karnataka, 1997-98 to 2015-16**

Transfers to Local Bodies (Rs. in Crore)			NLNORR (Rs. in Crore)	Ratio of Transfers to NLNORR			
Year	ULBs	PRIs		Total	ULBs	PRIs	Total
1997-98	274.81	3046.00	3320.81	7441.63	3.69	40.93	44.62
1998-99	332.37	3520.40	3852.77	8135.93	4.09	43.27	47.35
1999-00	415.66	4232.06	4647.72	8988.37	4.62	47.08	51.71
2000-01	531.43	4432.20	4963.63	10386.94	5.12	42.67	47.79
2001-02	563.81	4506.95	5070.76	10594.62	5.32	42.54	47.86
2003-04	629.00	4733.72	5362.72	15528.50	4.05	30.48	34.53
2004-05	798.00	4893.41	5691.41	20143.69	3.96	24.29	28.25
2005-06	1158.96	6466.12	7625.08	22110.04	5.24	29.25	34.49
2006-07	1639.06	7712.14	9351.20	27030.89	6.06	28.53	34.59
2007-08	1926.00	9024.13	10950.13	28895.33	6.67	31.23	37.90
2008-09	2374.09	10802.03	13176.12	30360.26	7.82	35.58	43.40
2009-10	2474.01	11374.19	13848.20	33420.50	7.40	34.03	41.44
2010-11	2978.00	13464.97	16442.97	41286.49	7.21	32.61	39.83
2011-12	4343.96	15374.86	19718.82	49924.68	8.70	30.80	39.50
2012-13	4018.42	18531.21	22549.63	56898.90	7.06	32.57	39.63
2013-14	5020.44	20510.18	25530.62	64775.78	7.75	31.66	39.41
2014-15	6011.46	24987.86	30999.32	70892.61	8.48	35.25	43.73
2015-16	6548.92	26575.81	33124.73	80690.68	8.12	32.94	41.05

**Source:** State's Own Tax, Non Tax Revenue and Transfers to local bodies GoK, Accounts at a Glance 1960-2015, Data on Total Fiscal Services from both Annual Financial Statements (GoK) and Finance Accounts (CAG, GoI).

Trends in share of transfers in the Non-Loan Net Own Revenue Resources (NLNORR) comprise of state's own revenue inclusive of both tax and non-tax sources after netting out the cost of collection charges. In order to make the long-run comparison, the overall trends in the transfers to the local bodies have been traced as a percent to NLNORR<sup>2</sup>. These trends in Table 7 show that the share of total transfers to the NLNORR has

declined from 44.62 percent in 1997-98 to 40.28 percent in 2016-17. In addition, considerable fluctuations have been observed. The share was highest in 1999-00 at 51.71 percent and lowest in 2004-05 at 28.25 percent. On an average, the total transfers account for 40.93 percent share in NLNORR; while the average share of urban local bodies is 6.16, rural local bodies account for 34.71 percent. The fiscal stress experienced by the

<sup>2</sup> Share of allocations to ULBs, PRIs and total to respective base used differs by the various SFCs i.e. NLNORR in case of first two SFCs and NLNORR in case of third SFC.

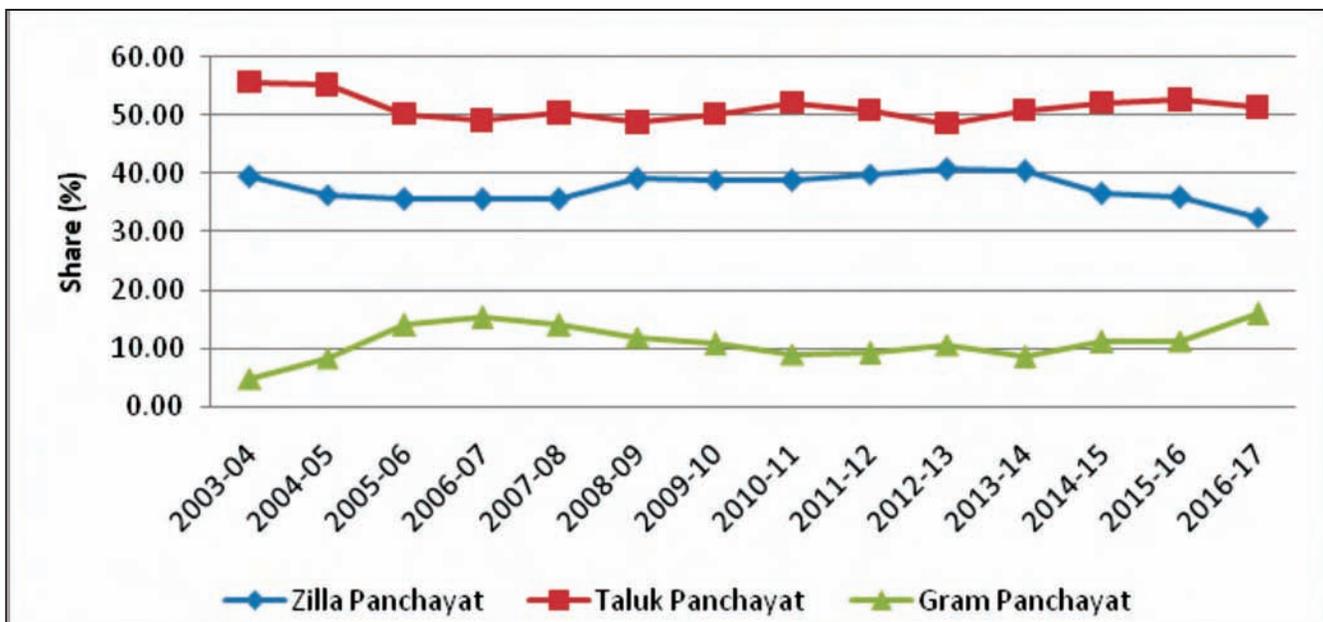
Government of Karnataka in late nineties and early years of the last decade had resulted in a declining share to the local bodies in the NLNORR and the improved state's fiscal health had resulted in a considerable increase in its share from 2005-06 till 2008-09. There has been a decline after that owing to the set back to the state's resource position caused by the global melt down. PRIs seem to be more vulnerable to the fiscal stress of the state as the fluctuations are more in the case of PRIs and the ULBs continue to have a steady increase albeit a much smaller share as compared to the PRIs. Yet another important observation from the trends is that the transfers effected to the local bodies do not seem to be in total compliance with the recommendations of State finance commissions constituted from time to time. For instance, transfers observed during 2011-12 to 2015-16, the period applicable for Third State Finance Commission, have exceeded the recommended level of 33 percent. Similar trends prevailed for

the earlier periods too. These trends by and large account for adhocism in the transfers effected to the local bodies albeit enhanced allocations over time and is an important matter of policy concern from the point of view of assured and predictable support received by the local bodies in the discharge of their development function.

#### 4.2. Allocation to PRIs by levels

Resources allocated to the three tiers of rural local bodies i.e. Zilla Panchayat (ZP), Taluk Panchayat (TP) and Gram Panchayat (GP) are presented in Figure 5. The largest share goes to the TPs followed by the ZPs and GPs. While the share of ZPs and TPs has declined during the reference period, share of GPs has increased significantly from 4.84 percent in 2003-04 to 16.06 percent in 2016-17. However, ZPs and TPs together constituted over 80 percent of total allocation throughout the period.

**Figure 5: Share of Zilla Panchayats, Taluk Panchayats, and Gram Panchayats in Total Allocation to PRIs in Karnataka: 2003-04 to 2016-17**



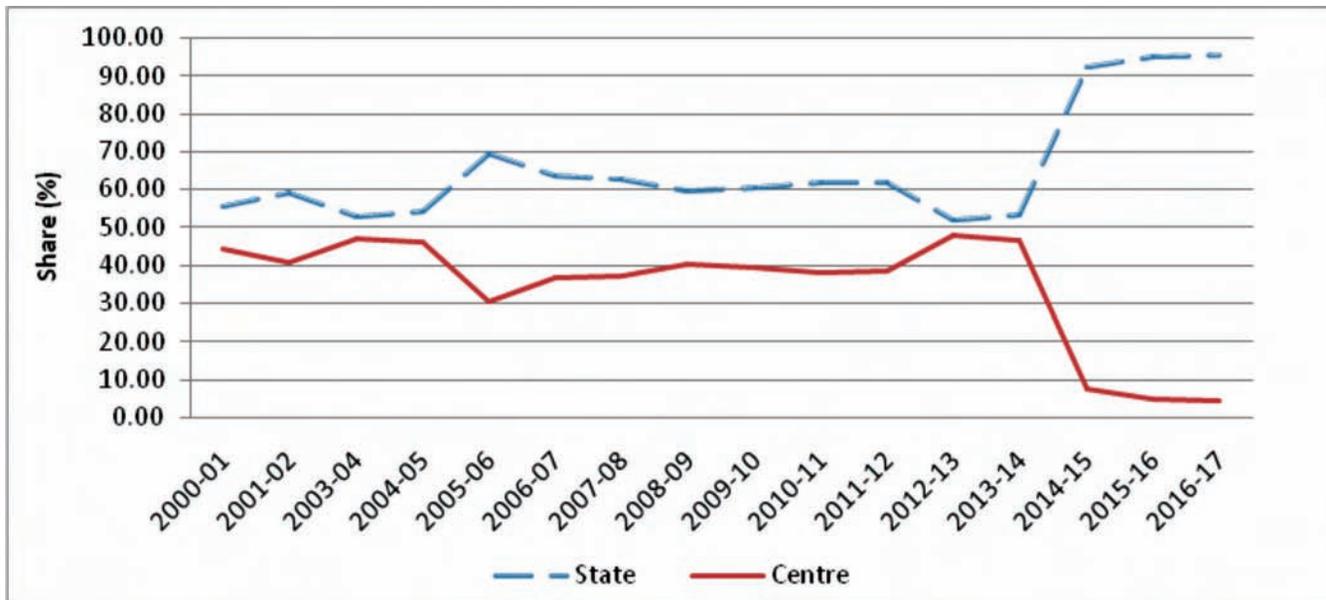
**Source:** Government of Karnataka, Link Documents: various years

## 5. District sector plan outlay

Devolution of plan funds to the rural local bodies as a percentage of the state's total plan outlay has reduced by more than half from 34.85 percent in 1991-92 to 15.43 percent in 2015-16 (Figure 6). This decline has occurred both in the state plan outlay and the allocations under central schemes. While that of state's plan outlay has declined from 18.43 to 14.68 percent, that of centrally sponsored schemes has declined much more significantly from 16.42 percent to 1.2 percent. The paradigm shift that has taken place in the design of the Centrally Sponsored Schemes (CSS) wherein the Central Government has completely delinked support to

certain CSS has changed the funding pattern and resulted in a sharp decline in central funding. The state plan has supplemented the significant central plan support since 2014-15. Two key issues that concern the rural local bodies development are: first, a significant decline in the support to the development spending, which is a serious concern as the dependence of the local bodies on higher levels of government is high due to very small size of their own resources. Second, the plan funding support is not steady and is subjected to considerable variations depending on the state's fiscal position. This leads to unpredictability of funding support and thus hampers developmental activities in a significant manner.

**Figure 6: Share of State and Centre in the plan allocation to PRIs in Karnataka: 2001-02 to 2016-17**



Source: Economic Survey, GoK (2015-16)

## 6. Plan and non-plan allocation

The plan and non-plan break up of the resources allocated to the PRIs (Table 8) reveals

that plan has had a larger increase and thus has an increased share in the total.

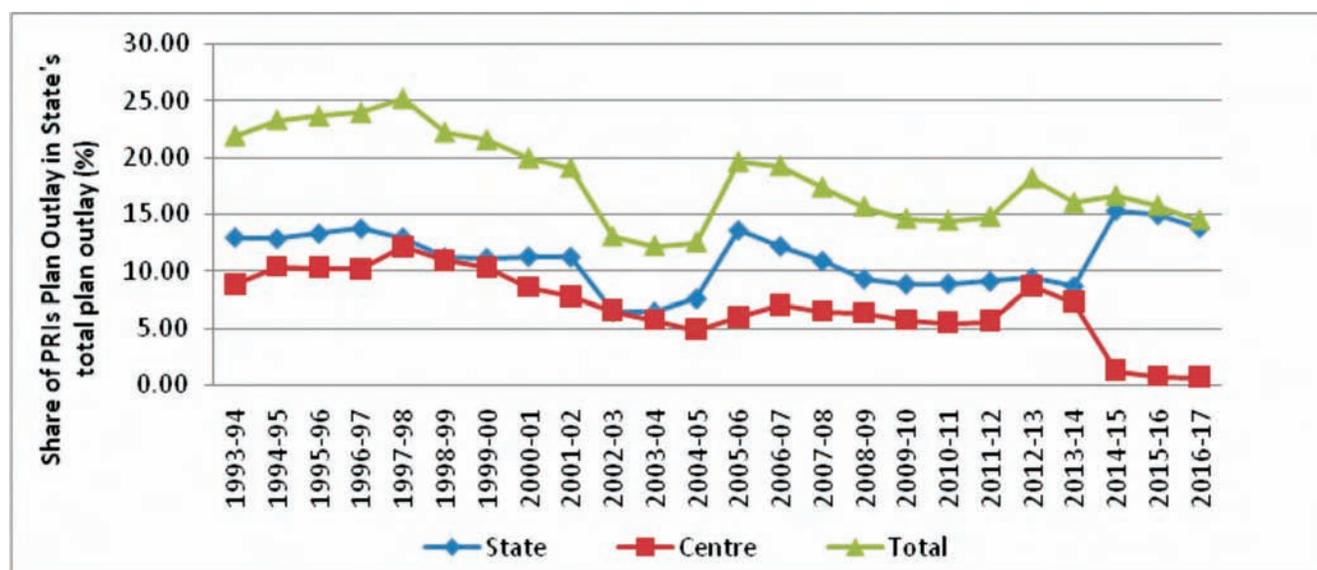
**Table 8: Plan and non- plan allocation to PRIs**

Allocation	2004-05	2007-08	2010-11	2013-14	2015-16	2016-17
Plan	1425 (29.13)	3571 (37.10)	4870 (36.17)	8730 (38.72)	11328 (42.62)	12513 (42.33)
Non-Plan	3468 (70.87)	6054 (62.90)	8595 (63.83)	13817 (61.28)	15248 (57.38)	17046 (57.67)
Total allocation	4893 (100)	9625 (100)	13465 (100)	22547 (100)	26576 (100)	29558 (100)

**Source:** Link Documents, Budget Volumes (various years),GoK

**Note:** Figures in parenthesis are percent to total allocation

However, the PRI plan outlay share in the state's plan outlay (Figure 7) has declined from about 25 percent in 1993-94 to less than 15 percent. The recent decline is largely on account of the changing funding support for the central plan schemes.

**Figure 7: Share of PRIs Plan Outlay to the Total State Plan Outlay in Karnataka: 1993-94 to 2016-17**

**Source:** Link Documents, Budget Volumes (various years), GoK

## 7. Conclusion

Devolution to local bodies is observed to be highly vulnerable to State's overall fiscal position creating uncertainty in the flow of funds. This phenomenon is more predominant for the PRIs as the share of ULBs is seen to be increasing albeit in small percentages. This is more with reference to plan/development funding than the non-plan funding which largely is towards salary.

Uncertainty/unpredictability of fund support hampers the developmental activities of the local bodies.

Data availability is important in the conduct of professional studies and for policy purposes. Unfortunately, data regarding the finances of the local bodies is poor and marked by data discrepancies between different sources and these need to be rectified on a priority basis.

There has been a sharp decline in plan funding from the state's plan outlay from both the state and centre sources reiterating the fact that, while development funding is receiving a setback, the salary component continues to be on the rise. The support provided by the Centre and states are not complementing each other but are substituting for one another, which once again raises the issue of predictability of assured funding.

### Acknowledgement

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