

FISCAL PERFORMANCE OF PANCHAYATI RAJ INSTITUTIONS (PRIs): AN EMPIRICAL ANALYSIS OF THE STATE OF ANDHRA PRADESH IN PRE AND POST-BIFURCATION PERIOD

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Abstract

The effectiveness of democratic decentralisation depends on the financial strength and independence of the local bodies. Financial autonomy is vital to reap the full potential benefits of decentralisation as the transfer of funds, functions, and functionaries will enable local bodies to be institutes of self-governance and not just delivery mechanisms. In the context of persistent fiscal distress across the local bodies, an attempt is made to empirically examine the fiscal performance of Panchayati Raj Institutions (PRIs) in Andhra Pradesh during 2010-11 to 2017-18, i.e. pre- and post-bifurcation periods of the State. The fiscal autonomy and the revenue dependency of PRIs across all three tiers in the State during the same period was also analysed. The study finds that the fiscal autonomy of top tiers, i.e. Mandal Praja Parishads (MPPs) and Zilla Praja Parishads (ZPPs) is negligible in both periods, while Gram Panchayats showed relatively better fiscal autonomy in both periods.

Keywords: Panchayati Raj Institutions, Financial Autonomy, Andhra Pradesh.

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Introduction

In an era of globalisation, decentralisation is the principal countervailing trend that can ensure the growth process is pro-poor, pro-women, pro-nature, and pro-jobs (UNDP, 2012). Around the world, communities are increasingly looking at innovative solutions around democratic decentralisation, participative local governance, and citizen-centred service delivery to solve their complex problems and achieve equitable and sustainable development (Atisa, G. et al., 2020). India embraced this new wave of decentralisation with the 73rd Constitutional Amendment Act (1992), which introduced a Part IX in the Constitution making State Legislatures responsible for devolving power and authority to Panchayat Raj Institutions (PRIs). The Eleventh Schedule was added through the 73rd Constitutional Amendment Act, of 1992, which lists 29 subjects¹ for devolution to strengthen the PRIs. An important feature of outlining this devolution of powers between the State Legislature and Panchayats is the discretionary nature of the devolution, which left the aspect of implementation to a large extent dependent on the intention and strength of the State enactments (Gol, 2016). The State of Andhra Pradesh enacted Andhra Pradesh Panchayat Raj (APPR) Act in 1994 to establish a three-tier system, viz. Gram Panchayat (GP), Mandal Praja Parishad (MPP), and Zilla Praja Parishad (ZPP) at the village, mandal and district levels, respectively. As per Section 74 of the AP Panchayat Raj Act (1994) which deals with taxation and finances of Gram Panchayats (GP), a provision for the institution of the 'Gram Panchayat Fund' was done. This fund will include all money received by the GP; and as per Section 75, the fund is to be used to spend on all mandatory functions and any other discretionary functions that the GP assumes, as well as on the salaries of GP staff.

Review of Literature

The importance of local bodies in development has been well documented, with Gram Panchayats

playing a vital role in improving the living conditions and status of the people (Dhonde, 2000) to Gram Sabhas being the best means of ensuring active participative governance (Baluchamy, 2004). Increased fiscal autonomy helps mobilise more revenue from local sources, improving a country's fiscal position, while decentralised decision-making encourages local participation in development (Shah, 1994). However, Vyasulu (2003) States that decentralisation seems to take place when the State governments take an interest for some special reason. The reason is the lack of pragmatic steps taken to enhance the revenue base of the Panchayats (Dasaratharamaiah & Raghavulu, 2006).

Many studies highlighted that the decentralisation of Panchayat Raj Institutions (PRIs) has suffered due to a lack of fiscal autonomy. Shah (1990) observes that the proper and efficient functioning of GPs is hindered due to weak financial resources. Though taxation powers are exclusively given to the GPs, there is a poor drive on their part to effectively mobilise their own resources (Vittal, 1996) with even the compulsory taxes and fees not levied by most of the Panchayats (Bhadouria & Dubey, 1989; Shah, 1990), and thus have little fiscal autonomy (Devendra Babu, 2009). The NIRD report (1990) also established that the resource base of the Gram Panchayats in many of the States continued to be poor and heavily dependent on the grants-in-aid from the State governments. Most of this is also due to the pressure to spend on welfare and development activities outstripping the development of revenue. Fund flows from higher to lower government are low and lack any devolution either in design or principle. In most cases, transfers are made at the convenience and the mercy of State governments (Devendra Babu, 2009). Though in some cases policy reforms have been taken to devolve powers, these initiatives have provided little impact on strengthening the power devolution regime in the States (Reddy & Mohapatra, 2017). Srivastava (2010) shows that the vertical component in the fiscal transfers to all

States amounted to 54 per cent of the total transfers, with the rest belonging to the other two components. The residual component covering special needs and incentives was less than 10 per cent of the total transfers.

The revenue mobilisation by Panchayats has been abysmally low and they are more dependent on fund transfers from higher levels of government for their functioning and reducing their autonomy, and thereby lessening their role to being agents of higher levels of government performing their functions (Rajaraman, 2007; Rao, M.G. et al., 2011). This is despite evidence of local government's failure to take advantage of the untapped revenue potential in property tax (Oommen et al., 2017). Oommen et al. also find that State and federal government support vis-à-vis intergovernmental grants is not crowding out revenue mobilisation. Most of the reviews highlight a lack of financial independence for PRIs.

Motivation for the Study

The State of Andhra Pradesh (AP) was bifurcated into AP and Telangana through the A. P Re-organisation Act, 2014 with effect from June 2, 2014. The bifurcation of the State has had an impact on the revenues and expenditures, and its assets and liabilities. First, the State lost Hyderabad, which was a significant revenue source. Secondly, the development of new capital and the necessary infrastructure requires substantial resources, and it would be the primary focus of the State rather than fiscal devolution. Lastly, and most notably, the distribution of assets between the two States based on location, liabilities and relative populations has created a larger debt burden on the State (Government of AP, 2018).

Although Andhra Pradesh has had a long history of democratic decentralisation and bifurcation, the ambiguity over it has caused disruptions in democratic decentralisation. It is in this context; the present study seeks to empirically

examine the fiscal situation of three tiers of PRIs in Andhra Pradesh during pre (2010-11 to 2013-14) and post (2014-15 to 2017-2018) bifurcation periods. Further, it also examines the fiscal autonomy and revenue dependency of PRIs during the same period.

Data Sources and Methodology

The study is based on secondary data sourced from the Directorate of Economic and Statistics (DES) and the Ministry of Panchayati Raj and Rural Development, Government of Andhra Pradesh. We employed revenue and expenditure patterns of capital and revenue items as the main variables to examine the financial situation of PRIs in the States between 2010-11 to 2017-18. Analysis of the variables has been done over two periods, i.e. pre-bifurcation (2010-11 to 2013-14) and post-bifurcation periods (2014-15 to 2017-18) across various tiers. Further, to understand the fiscal autonomy and revenue dependency of PRIs, we have employed Sikha Jha's (2004) methodology.²

Empirical Result and Analysis

Trends in Revenues Receipts and Expenditure of PRIs during pre and post bifurcated State of Andhra Pradesh: The State of Andhra Pradesh has 13,075 Gram Panchayats (GPs), 660 Mandal Praja Parishads (MPPs), and 13 Zilla Praja Parishads (ZPs). The district-wise number of local bodies at different levels is presented in Table 1. The PRIs have their tax and non-tax revenue sources. In addition to their revenues, the PRIs receive resource transfers in the form of (i) assigned taxes; (ii) devolution based on SFC recommendations and accepted by the government; (iii) Grants-in-aid based on SFC recommendations; and (iv) other grants including grants from the Government of India based on Finance Commission recommendations and other transfers (GoAP, 2018).

Table 1*Snapshot of District-level Local Bodies in Andhra Pradesh (2019)*

District	ZPTC	Mandals	No of GPs	Total Population
Ananthapuram	1	63	1029	3369798
Chittoor	1	65	1372	3576417
East Godavari	1	62	1072	4746324
Guntur	1	57	1031	3517052
Krishna	1	49	980	3292046
Kurnool	1	53	909	3289858
Nellore	1	46	940	2307113
Prakasam	1	56	1038	3141600
Srikakulam	1	38	1148	2714455
Visakhapatnam	1	39	925	2677823
Vizianagaram	1	34	921	2184561
West Godavari	1	48	909	3670165
YSR Kadapa	1	50	791	2257099
Total	13	660	13065	40744311

Source: GoAP, Department of Panchayati Raj and Rural Development.

Revenue Receipts of Gram Panchayats: Tax and Non-Tax Revenues are the own sources of revenue for Gram Panchayats. Major tax revenues are property tax, professional tax, entertainment tax (now subsumed under GST), entry tax, and other taxes. Major items of Non-Tax Revenue include water charges, user charges/fees, rents from shopping complexes, buildings, fish tanks, etc.

During the study period, total revenue receipts of GPs, including central transfers, depicted a steady increase as it grew from Rs.428 crore in 2010-11 to Rs.881 crore in 2013-14 in the undivided State, while in the newly bifurcated State, a marginal increase from Rs.2025 crore in 2014-15 to Rs.2062 crore in 2017-18 (Table 2) was

observed. This may perhaps be due to the allocation of the Central Finance Commission grants solely to GPs. Own tax revenues of GPs have increased steadily from 2010-11 to 2016-17, but thereafter there was a decline due to some of the taxes subsumed under GST. Non-tax revenues show an increasing but unsteady trend. This is true of assigned revenues as well as devolution and grants from the State government. It may, however, be noted that the grants from the State government indicated in the table do not include the expenditure absorbed by the State government in the form of salaries and other allowances of permanent employees covered under the head 010 as well as several other grants provided to GPs.

Table 2*Revenue Receipts of GPs in AP: 2010-11 to 2017-18(in Rs. Crore)*

		Undivided State				Divided State					
S. No.	Revenue Source					Avg					Avg
		2010-11	2011-12	2012-13	2013-14	2010-11 to 2014-15 13-14	2015-16	2016-17	2017-18	2014-15 to 2017-18	
1	Property Tax	148 (34.6)	152 (25.3)	131 (32.5)	139 (15.8)	142.5 (27.0)	166 (8.2)	238 (15.3)	277 (13.1)	131 (6.3)	203 (10.7)
2	Other Taxes*	18 (4.2)	18 (3.0)	18 (4.5)	19 (2.2)	18.25 (3.5)	20 (1.0)	20 (1.3)	23 (1.1)	22 (1.1)	21.25 (1.1)
3	Non-Tax Rev**	85 (19.9)	86 (14.3)	108 (26.8)	126 (14.3)	101.25 (18.8)	135 (6.7)	125 (8.0)	141 (6.7)	118 (5.7)	129.75 (6.8)
4	Transfers from Central Govt.	4 (0.9)	56 (9.3)	6 (1.5)	12 (1.4)	19.5 (3.3)	36 (1.8)	30 (1.9)	35 (1.7)	28 (1.4)	32.25 (1.7)
5	Transfers from 13 th /14 th FC	99 (23.1)	214 (35.6)	0 (0.0)	407 (46.2)	180 (26.2)	1481 (73.1)	928 (59.6)	1454 (68.8)	1676 (81.0)	1384.75 (70.6)
6	Assigned Taxes and Devolution	38 (8.9)	39 (6.5)	89 (22.1)	99 (11.2)	66.25 (12.2)	110 (5.4)	96 (6.2)	106 (5.0)	45 (2.2)	89.25 (4.7)
7	Grants-in-Aid from State Govt.	36 (8.4)	36 (6.0)	50 (12.4)	79 (9.0)	50.25 (8.9)	77 (3.8)	122 (7.8)	77 (3.6)	48 (2.3)	81 (4.4)
8	Total Revenues	428	601	403	881	578.25	2025	1558	2112	2068	1940.75

Note: * Other taxes include Profession tax, Entertainment Tax, and Octroi/Entry Tax, etc.

** Non-Tax Revenue includes Water Charges, Fees/User charges, Irrigation Charges and building rents, auctions, etc.

Source: GoAP, Department of Panchayati Raj and Rural Development.

It can be observed from Table 2 that one of the biggest sources of revenue to Gram Panchayats during the pre-bifurcation (2010-11 to 2013-14) period is property taxes, which constituted an average of 27 per cent, followed by Finance Commission grants (26.2 per cent). Transfers from the Central government remained one of the lowest sources of revenue to GPs (3.3 per cent) along with other taxes (3.5 per cent) during the same period. This is because most of the grants from the Central government are through Centrally Sponsored

Schemes. Concerning trends in revenue in the bifurcated State, we can observe a paradigm shift in sources, as during this period (2014-15 to 2017-18) the Finance Commission grants emerged as the biggest contributor accounting for an average of 70.6 per cent. Revenue from immovable property tax, which used to contribute to a healthy average of 27 per cent during the pre-bifurcated period, steadily declined to an average of 10.7 per cent in the bifurcated State. The same trend applies to non-tax revenues, assigned taxes, grants-in-aid from

the State government, and other taxes. We can observe here that after the bifurcation, the Gram Panchayats are now increasingly dependent on the transfers from the Central Finance Commission. This may be perhaps because the 14th Finance Commission grants are confined to Gram Panchayats, not to MPPs and ZPs.

Mandal Praja Parishads

The Mandal Parishads (MPs) do not have any own tax revenue sources but receive their share of assigned taxes as well as devolution from general

revenues of the State government. But the main source of sustenance for the MPs is the grants provided by the State government. It may be noted that in the books of accounts of the Mandal Panchayats, grants-in-aid received for implementing centrally sponsored programmes and State schemes are also shown.

As pointed out above, MPs do approve several State and centrally-sponsored schemes implemented in the Mandal, and the grants received for such programmes are indicated in their budgets. However, they have no direct control over these receipts and expenditures.

Table 3

Revenue Realised by the Mandal Praja Parishads in AP: 2010-11 to 2017-18 (in Rs. Crore)

S. No.	Revenue Source	Undivided State					Divided State				
		2010-11	2011-12	2012-13	2013-14	Avg 2010-13	2014-15	2015-16	2016-17	2017-18	Avg 14-17
1	Property Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Other Taxes*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Non-Tax Rev**	15.7 (0.9)	18.5 (1.0)	17.0 (0.8)	8.1 (0.4)	14.8 (0.8)	6.9 (0.3)	39.3 (1.4)	21.3 (0.6)	17.2 (0.5)	17.2 (0.7)
4	Transfers from Central Govt.***	1571.5 (90.8)	1600.1 (85.7)	1810.3 (90.0)	1906.6 (88.9)	1722.1 (88.9)	1900.4 (81.5)	2543.6 (89.6)	3212.0 (87.1)	3129.5 (84.7)	3129.6 (85.7)
5	Transfers from 13 th /14 th FC	5.45 (0.3)	12.42 (0.7)	0.0	61.1 (2.9)	19.7 (1.0)	223.2 (9.6)	0.0	0.0	302.2 (8.2)	302.2 (4.4)
6	Assigned Taxes and Devolution	35.1 (2.0)	60.1 (3.2)	62.0 (3.1)	41.4 (1.9)	49.6 (2.6)	41.0 (1.8)	62.8 (2.2)	57.0 (1.5)	42.5 (1.2)	42.5 (1.7)
7	Grants-in-Aid from State Govt.	102.2 (5.9)	175.8 (9.4)	121.5 (6.0)	126.5 (5.9)	131.5 (6.8)	160.0 (6.9)	192.2 (6.8)	396.5 (10.8)	203.1 (5.5)	203.1 (7.5)
8	Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Total Receipts	1730.0	1866.9	2010.8	2143.7	1937.8	2331.3	2838.0	3686.8	3694.5	3694.5

Note: * others include Profession tax, Entertainment Tax and Octroi/Entry Tax, etc.

** Non-Tax Revenue includes Water Charges, Fees/User charges, Irrigation Charges and building rents, auctions, etc.

***includes transfers for centrally sponsored programmes over which MPs have no direct control.

Figures in parentheses indicate the percentage of revenues of MPPs.

Source: GoAP, Department of Panchayat Raj and Rural Development.

Analysing the revenue trends of Mandal Parishads from Table 3, we can observe the absence of taxes on property, as they have no tax-imposing powers on this. Among all the sources of revenue, transfers from the Central government constitute the largest in both pre (avg of 89 per cent) and post (85.7 per cent) bifurcation periods. Other sources of revenue in the pre-bifurcation period are grants-in-aid from the State government (6.8 per cent), and non- taxes revenues (0.8 per cent). Concerning the post-bifurcated State, other sources of revenue are grants-in-aid from the State government (7.5 per cent) and transfers from the Finance Commission (4.4 per cent), while non-tax revenues are at a meagre 0.7 per cent. The MPPs in the bifurcated State (2014-17) have however, received a higher share of transfers from the Finance Commission (4.4 per cent) as compared to the trend observed in the undivided State (average of 1.0 per cent). The share of non-tax revenue contribution remained steady at a meagre 0.7 per cent over the two periods.

Zilla Praja Parishads

From the data presented, we can see the revenues of apex-level of Panchayats in the district, i.e. Zilla Parishads are not quite substantial either. The total revenues (excluding central grants) of 13 Zilla Parishads in the State increased from Rs.145 crore to Rs.583 crore during 2010-11 to 2017-18. This amounts to Rs.11.15 crore per Zilla Parishad in 2010-11 and Rs.45.00 crore in 2017-18 on average (Table 4). Assigned revenues, including devolution, if any, and grants from the State government are the major sources of revenue to the Zilla Parishads. During the 13th Finance Commission period, grants made on the recommendation of the Finance Commission constituted slightly more than 50 per cent of the total revenues. But during the 15th Finance Commission award period, the ZPs have not been provided with any CFC grant. If the grants from the Central government are included, the average revenue for ZP varied between Rs.20 crore to Rs.76 crore.

Table 4

Revenue Realised by the Zilla Praja Parishads in AP: 2010-11 to 2017-18

S. No.	Item	Undivided State					Bifurcated State				
		2010-11	2011-12	2012-13	2013-14	Avg 2010-13	2014-15	2015-16	2016-17	2017-18	Avg 2014-17
1	Own Tax Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Non-Tax Revenue**	20.0 (7.8)	22.0 (6.6)	21.0 (6.5)	5.0 (1.0)	17.0 (5.5)	11.0 (1.0)	11.0 (1.8)	9.0 (0.8)	5.0 (0.5)	9.0 (1.1)
3	Assigned Revenue & Devolution	50.0 (19.5)	97.0 (29.1)	83 (25.9)	60 (11.8)	72.5 (21.6)	71 (6.6)	143 (23.8)	131 (12.3)	49 (5.0)	98.5 (11.9)
4	Grant from State Govt.	36 (14)	86 (25.8)	0.0	143 (28.1)	66.3 (17.0)	424 (39.4)	160 (26.7)	435 (40.7)	497 (50.4)	379 (39.3)
5	Transfer from Central Govt.	112 (43.6)	54 (16.2)	211 (65.7)	200 (39.3)	144.3 (41.2)	144 (13.4)	268 (44.7)	417 (39.0)	403 (40.9)	308 (34.5)
6	Transfer from 13 th / 14 th FC	39 (15.2)	74 (22.2)	7 (2.2)	101 (19.8)	55.3 (14.9)	426 (39.6)	18 (3.0)	76 (7.1)	32 (3.2)	138 (13.2)
7	Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Total	257.0	333.0	321.0	509.0	355.0	1076.0	600.0	1068.0	986.0	932.5

Note: ** Non-Tax Revenue includes Water Charges, Fees/User charges, Irrigation Charges and building rents, auctions, etc.

Figures in parentheses indicate the percentage of revenues of ZPPs.

Source: GoAP, Department of Panchayat Raj and Rural Development.

Table 4 presents the revenues for Zilla Parishads before and after bifurcation of Andhra Pradesh. During the pre-bifurcated period, ZPs received major receipts in the form of transfers to an average of 41.2 per cent from the Central government. This, however, fell to an average of 35.0 per cent in the bifurcated State, i.e. during 2014-17. The grants from the State government which was averaging 17.8 per cent during 2010-13, have, however, increased to an average of 39.3 per cent during 2014-17. Transfers from the Finance Commission remained steady during both phases at around 14 per cent. Thus, one can conclude that the predominant sources of revenues of Zilla Parishads in the State are grants from the State government and transfers from the Central government, rather than their own tax revenues during both periods.

Expenditure Patterns of PRIs in the Pre and Post-bifurcated State of Andhra Pradesh: Having examined the different sources of revenues, we now analyse the expenditure patterns incurred

in the study period. Expenditure patterns of PRIs are classified into the following five categories:

1. Expenditure on Establishment
2. Expenditure on Maintenance
3. Expenditure on Welfare
4. Other Expenditure, and
5. Capital Expenditure.

The Government of Andhra Pradesh has consolidated the first four categories of expenditure into Revenue Expenditure and the 5th one as Capital Expenditure separately.

Expenditure Patterns of Gram Panchayats

The major component of expenditure for Gram Panchayats is incurred in the maintenance of GP infrastructure, followed by the establishment cost and capital expenditure (Table 5).

Table 5

Expenditure of Gram Panchayats in AP: 2010-11 to 2017-18 (in Rs. Crore)

S. No.	Item	Undivided State					Bifurcated State of Andhra Pradesh				
		2010-11	2011-12	2012-13	2013-14	Avg 10-13	2014-15	2015-16	2016-17	2017-18	Average (2014-18)
1	Establishment	86 (24.9)	91 (24.9)	90 (24.8)	93 (24.2)	90 (24.7)	96 (23.7)	117 (22.2)	126 (22.3)	123 (22.4)	115.5 (22.6)
2	Maintenance	169 (49)	175 (47.8)	175 (48.2)	177 (46.1)	174 (47.8)	179 (44.2)	207 (39.4)	216 (38.3)	212 (38.5)	203.5 (39.8)
3	Welfare Expenditure	9 (2.6)	9 (2.5)	13 (3.6)	15 (3.9)	11.5 (3.1)	20 (4.9)	24 (4.6)	25 (4.4)	24 (4.4)	23.25 (4.5)
4	Others	4 (1.2)	4 (1.1)	4 (1.1)	4 (1.0)	4 (1.1)	4 (1.0)	4 (0.8)	4 (0.7)	4 (0.7)	4 (0.8)
5	Total Rev. Exp (1-4)	268 (77.7)	279 (76.2)	282 (77.7)	289 (77.3)	279.5 (76.7)	299 (73.8)	352 (66.9)	371 (65.8)	364 (66.2)	346.5 (67.8)
6	Capital Exp.	77 (22.3)	88 (24.0)	82 (22.6)	95 (24.7)	85.5 (23.4)	106 (26.2)	174 (33.1)	193 (34.2)	186 (33.8)	164.75 (32.2)
7	Rev. & Cap Exp. (5+6)	345.0	366.0	363.0	384.0	364.5	405.0	526.0	564.0	550.0	511.25 (100.0)

Note: Figures in parentheses indicate that the percentage of expenditure of the GPs.

Source: GoAP, Department of Panchayati Raj and Rural Development.

From Table 5, we can analyse the expenditure patterns of Gram Panchayats in Andhra Pradesh in both periods. During the pre-bifurcated period, revenue expenditure constituted an average of 76.7 per cent, while capital expenditure was 23.4 per cent. In revenue expenditure, on average maintenance expenditure accounted for nearly 47.8 per cent, followed by establishment expenditure (24.7 per cent) and welfare expenditure (3.1 per cent). In the case of post-bifurcated State, the revenue expenditure exhibits a lower share as it accounts for an average of 67.2 per cent, while capital expenditure constitutes 32.8 per cent. Among the revenue expenditure, on average maintenance expenditure has the largest share of 39.4 per cent, followed by establishment expenditure (22.6 per cent) and welfare

expenditure (4.5 per cent). We can observe from the table that in both periods, the major share of expenditure is under maintenance, while the share of welfare is very minimal.

Expenditure of Mandal Praja Parishads

The major source of expenditure among the mandal parishads is welfare expenditure, followed by establishment cost, capital expenditure, and maintenance. It may be noted that the welfare expenditure indicated here is incurred by the line departments but only notionally approved by the Mandal Parishads. On average, expenditure per mandal parishad ranged from Rs.3.35 crore to Rs.11.7 crore during 2010-11 to 2017-18. (Table 6).

Table 6

Expenditure of Mandal Parishads in AP: 2010-11 to 2017-18(in Rs. Crore)

S. No.	Item	Undivided State					Bifurcated state				
		2010-11	2011-12	2012-13	2013-14	Avg 2010-13	2014-15	2015-16	2016-17	2017-18	Avg 2014-18
1	Establishment	333 (15.1)	506 (21.0)	390 (13.6)	428 (15.3)	414.3 (16.2)	548 (13.4)	624 (9.4)	761 (10.6)	913 (11.8)	711.5 (11.1)
2	Maintenance	197 (8.9)	154 (6.4)	173 (6.0)	176 (6.3)	175 (6.9)	190 (4.7)	235 (3.5)	338 (4.7)	292 (3.8)	263.8 (4.1)
3	Welfare Expenditure	638 (28.9)	696 (28.9)	897 (31.2)	1190 (42.4)	855.3 (32.8)	2161 (52.9)	4063 (61.4)	3879 (54.1)	4313 (55.9)	3604.0 (56.3)
4	Others	832 (37.6)	819 (34.0)	1103 (38.4)	673 (24.0)	856.6 (33.5)	838 (20.5)	1218 (18.4)	1605 (22.4)	1592 (20.6)	1313.3 (20.5)
5	Total Rev. Exp (1-4)	2000 (90.5)	2176 (90.4)	2564 (89.2)	2467 (88.0)	2301.8 (89.5)	3737 (91.5)	6141 (92.8)	6583 (91.8)	7110 (92.2)	5892.8 (92.1)
6	Capital Exp.	210 (9.5)	231 (9.6)	311 (10.8)	338 (12.0)	272.5 (10.5)	347 (8.5)	479 (7.2)	586 (8.2)	602 (7.8)	503.5 (7.9)
7	Total Rev. & Cap Exp. (5+6)	2210.0	2408.0	2875.0	2805.0	2574.5	4084.0	6620.0	7169.0	7712.0	6396.3 (100.0)

Note: Figures in parentheses indicate the percentage of the expenditure of the MPPs.

Source: GoAP, Department of Panchayati Raj and Rural Development.

As observed from Table 6, unlike Gram Panchayats, a major share of Mandal Parishads' expenditure is under welfare expenditure. It may be noted that the welfare expenditure indicated here is incurred by the line departments but notionally approved by the Mandal Parishads. However, there is a stark variation in the proportion of welfare expenditure in both periods; in the pre-bifurcated State (2010-13), it stood at an average of 32.8 per cent, compared to over 56.0 per cent registered in the post-bifurcation period. However, the share of

capital expenditure is very low across both periods at 8.5 per cent and 7.9 per cent, respectively. There is also a significant share of revenue expenditure among Mandal Parishads in both the pre-bifurcated (33.5 per cent) and post-bifurcated State periods (20.5 per cent).

Expenditure of Zilla Praja Parishads

Establishment and maintenance expenditures are the two principal sources of expenditure, followed by capital expenditure.

Table 7

Expenditure of Zilla Praja Parishads in AP: 2010-11 to 2017-18(in Rs. Crore)

S. No.	Item	Undivided State					Divided State				
		2010-11	2011-12	2012-13	2013-14	Avg.	2014-15	2015-16	2016-17	2017-18	Avg.
1	Establishment	52 (36.4)	61 (37.2)	67 (36.8)	70 (30.2)	62.5 (35.1)	82 (19.1)	95 (27.6)	97 (30.1)	97 (32.9)	92.8 (27.4)
2	Maintenance	38 (26.6)	56 (34.1)	45 (24.7)	76 (32.8)	53.8 (29.6)	153 (35.6)	169 (49.1)	115 (35.7)	115 (39.0)	138 (39.9)
3	Welfare Exp.	2 (1.4)	3 (1.8)	2 (1.1)	3 (1.3)	2.5 (1.4)	3 (0.7)	2 (0.6)	7 (2.2)	5 (1.7)	4.3 (1.3)
4	Others	5 (3.5)	0.0	0.0	7 (3.0)	3 (1.6)	38 (8.8)	5 (1.5)	20 (6.2)	11 (3.7)	18.5 (5.1)
5	Total Rev. Exp. (1-4)	97 (67.8)	121 (73.8)	115 (63.2)	156 (67.20)	122.3 (68)	277 (64.4)	270 (78.5)	239 (74.2)	228 (77.3)	253.5 (73.6)
6	Capital Exp.	46 (32.2)	43 (26.2)	67 (36.8)	76 (32.8)	58 (32.0)	153 (35.6)	74 (21.5)	84 (26.1)	67 (22.7)	94.5 (26.5)
7	Total. Rev& Cap Exp. (5+6)	143.0	164.0	182.0	232.0	180.3	430.0	344.0	322.0	295.0	347.8

Note: Figures in parentheses indicate the percentage of the expenditure of the ZPPs.

Source: GoAP, Department of Panchayati Raj and Rural Development.

The expenditure pattern of Zilla Parishads in the State over both periods is similar to the pattern observed with GPs (Table 9). While the share of establishment expenditure decreased from an average of 35.1 per cent to 27.4 per cent, the share of maintenance increased from 29.6 per cent to

39.9 per cent in the pre and post-bifurcated States, respectively. However, contrary to Gram Panchayats and Mandal Parishads, the share of capital expenditure among Zilla Parishads has reduced in the new State from 32.8 per cent to 26.5 per cent.

Overall Receipts and Expenditures of PRIs

Revenue receipts of three-tier PRIs in Andhra Pradesh presented in Table 8 show an impressive increase from Rs.2,415 crore in 2010-11 to

Rs.6,749 crore in 2017-18 - an absolute growth of 27.9 per cent over eight years. However, the growth in State revenue receipts during the same period recorded a relatively steeper increase.

Table 8

Total Revenues and Expenditures of PRIs in Andhra Pradesh:2010-11 to 2017-18 (Rs. Crore)

S. No.	Year	Total Receipts of PRIs	Receipts of PRIs as % of states revenue receipts	Total Expenditures of PRIs	Total Revenue Receipts of GoAP
Pre-bifurcated State					
1	2010-11	2415	3.0	2698	80996
2	2011-12	2802	3	2938	93554
3	2012-13	2735	2.6	3421	103830
4	2013-14	3533	3.2	3421	110719
Post bifurcated State					
5	2014-15	5432	5.9	4919	90672
6	2015-16	4996	5.6	7490	88648
7	2016-17	6867	6.9	8055	98984
8	2017-18	6749	6.4	8557	105063

Note: Total revenues include Central government grants and FC grants.

Source: GoAP, Department of Panchayati Raj and Rural Development; Budget Documents of GoAP (various issues).

We can observe from Table 8 that the total PRIs receipts constituted just around 3 per cent of the total revenue receipts of Andhra Pradesh in the pre-bifurcated period. On the other hand, in the bifurcated State, it doubled to an average of 6.2 per cent of the total revenue. However, this is still considerably less, showing that there is no proper devolution of resources from the States to the local bodies.

A detailed trend in revenue patterns of different PRIs in Andhra Pradesh during 2010-11 to 2017-18 shows that the majority of revenues are contributed from Mandal Praja Panchayats, followed by GPs and ZPPs during both periods. The share of Zilla Parishads as a proportion to the total revenues of PRI in Andhra Pradesh has increased from 10.6 per cent in 2010-11 to 14.6 per cent in 2017-18.

About the share revenues of Mandal Praja Parishads, it fell from 71.6 per cent to 54.7 per cent from 2010-11 to 2017-18. In the post-bifurcated State of Andhra Pradesh, the revenues of Mandal Praja Parishads to the total revenues of PRIs in the State averaged around 52.0 per cent compared to 68.0 per cent recorded in the undivided State. However, in the case of GPs, the share of revenues has doubled from 17.7 per cent to 30.6 per cent. This suggests that the extent of financial devolution in the State is very limited. Secondly, the PRIs depend on the Central and State government transfers even to meet relatively small expenditures. Therefore, there is a strong case for a larger amount of devolution of resources to the PRIs, besides the transfer of functions and functionaries.

Table 9*Detailed Revenue Patterns of ZPs, MPPs, and GPs: 2010-11 to 2017-18 (in Rs. Crore)*

S. No.	Year	ZPs	Mandal Parishads	GPs	Total Revenues of PRIs
Pre Bifurcated State					
1	2010-11	256.9 (10.6)	1730 (71.6)	428.2 (17.7)	2415.1
2	2011-12	333.4 (11.9)	1866.9 (66.6)	601.3 (21.5)	2801.7
3	2012-13	321.4 (11.8)	2010.8 (73.5)	402.7 (14.7)	2734.9
4	2013-14	509.2 (14.4)	2143.7 (60.7)	880.6 (24.9)	3533.4
Post Bifurcated State					
5	2014-15	1076.1 (19.8)	2331.3 (42.9)	2024.7 (37.3)	5432.1
6	2015-16	600.2 (12.0)	2838.0 (56.8)	1558.1 (31.2)	4996.2
7	2016-17	1067.7 (15.5)	3686.8 (53.7)	2112.1 (30.8)	6866.6
8	2017-18	986.2 (14.6)	3694.5 (54.7)	2068.4 (30.6)	6749.1

Note: Total revenues include Central government grants and FC grants.*Source:* GoAP, Commissionerate of Panchayati Raj and Rural Development.**Table 10***Detailed Expenditure Patterns of ZPs, MPPs, and GPs: 2010-11 to 2017-18 (in Rs. Crore)*

S. No.	Year	ZPs	Mandal Parishads	GPs	Total Expenditure of PRIs
Pre bifurcated State					
1	2010-11	143.4 (5.3)	2209.8 (81.9)	345.0 (12.8)	2698.2
2	2011-12	164.3 (5.6)	2407.6 (81.9)	366.4 (12.5)	2938.3
3	2012-13	182.5 (5.3)	2874.65 (84.0)	363.5 (10.6)	3420.6
4	2013-14	231.5 (6.8)	2805.1 (82.0)	384.0 (11.2)	3420.6
Post bifurcated State					
5	2014-15	429.7 (8.7))	4083.9 (83.0)	405.2 (8.2)	4918.8
6	2015-16	344.1 (4.6)	6619.9 (88.4)	525.7 (7.0)	7489.7
7	2016-17	322.1 (4.0)	7168.8 (89.0)	564.3 (7.0)	8055.2
8	2017-18	295.0 (3.4)	7711.9 (90.1)	549.7 (6.4)	8556.6

Source: GoAP, Commissionerate of Panchayati Raj and Rural Development.

The share of expenditure of Zilla Parishads in Andhra Pradesh to the total expenditure of PRIs have averaged around 5.0 per cent in both periods, while the share of ZPs expenditures exhibited a declining trend in the post-bifurcated State. The pattern is similar to Gram Panchayats' expenditure as it declined from around 12.0 per cent in the undivided State to 7.0 per cent in the new State. The expenditure share of MPPs averaged around 85 per cent over the years.

Discussion

Fiscal Autonomy and the Revenue Dependency of PRIs:

In this section, we have attempted to analyse the financial strength of PRIs in Andhra Pradesh by estimating their fiscal autonomy and revenue dependency. Achieving a degree of financial autonomy is vital to reap the full potential benefits of decentralisation. An analysis of fiscal and financial autonomy should be based on an examination of the devolution of funds, functions, and functionaries. For example, rural development schemes of the Central government are managed

by line departments without any discretion of rural local governments in allocating funds between competing activities. To be more financially independent, rural bodies must be encouraged to raise local resources for development before they receive grants from higher governments. "The more dependent a PRI is on the mass of its citizens for financial resources, the more likely it is to use scarce material resources to promote human development and reduce poverty" (Gol, 2002). To understand the degree of financial strength, we applied two concepts, namely fiscal autonomy and revenues dependency to study the PRIs in Andhra Pradesh.

Fiscal Autonomy, for the present analysis, is defined as the ratio of own revenues to total revenue receipts. The concept of revenue dependency measures the extent to which the PRIs rely on Central and State governments for their revenue, by estimating the component of revenue which comes in the form of grants and assigned revenues. The following formulas were used to estimate the fiscal autonomy and revenue dependency:

$$\text{Fiscal Autonomy} = \frac{\text{Own Tax and Non-Tax Revenues}}{\text{Total Revenue Receipts}^*} \times 100$$

$$\text{Revenue Dependency} = \frac{\text{Revenue received as Grants, Transfers, and Assigned Revenues}}{\text{Total Revenue Receipts}^*} \times 100$$

Note: *Total Revenue Receipts include Revenue from Taxes, Non-Taxes, Grants, Transfers and Assigned Revenue and other revenue, if any.

Fiscal Autonomy: Estimates from the fiscal autonomy ratios (Table 11) reveal that both MPPs and ZPPs are found to rely on their tax revenue resources to a very negligible extent during both periods. On the contrary, the Gram Panchayats' dependency on their tax revenues is close to 58.6 per cent and 32.2 per cent during pre- and post-bifurcation periods, respectively. Though the fiscal

autonomy of MPPs and ZPPs poses a serious concern in the matter of mobilisation of their own tax revenues across both periods, off-late Gram Panchayats too are experiencing a decline in fiscal autonomy, given the greater reliance on transfers from the Finance Commission. This would be a cause for concern as central schemes usually have less awareness of the ground realities in the field,

Table 11*Fiscal Autonomy of Panchayat Raj Institutions in Andhra Pradesh*

S. No.	Panchayat Raj Institutions	Undivided State					Divided State		
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	Gram Panchayats (13065)	58.6	42.6	63.8	32.2	15.9	24.6	20.9	13.1
2	Mandal Praja Parishads (660)	0.9	1.0	0.8	0.4	0.3	1.4	0.6	0.5
3	Zilla Praja Parishads (13)	7.8	6.6	6.5	1.0	1.0	1.8	0.8	0.5

Sources: Tables 2,3,4. Calculations by Authors.

and thus also hinder local decision-making, which is against the spirit of democratic decentralisation envisaged under Article 73. Given greater reliance on central schemes, the local bodies lose all their discretion and rely on the line departments undermining the premise of democratic decentralisation.

Revenue Dependency: We have also assessed the revenue dependency of PRIs in the State, which captures the dependency of PRIs on Grants and Transfers as a proportion to its total revenue receipts.

Revenue dependency in the pre-bifurcated State

(2010-11 to 2013-14) among Gram Panchayats rose from 41.1 per cent in 2010-11 to 67.8 per cent in 2013-14. This has exhibited an even greater share in the post-bifurcated State as it rose from 84.1 per cent in 2014-15 and 86.9 per cent in 2017-18. This shows that the dependency of Gram Panchayats on Central and State governments has increased over the years. While Gram Panchayats did exhibit lower dependency during the pre-bifurcated period, both Mandal and Zilla Parishads (middle and upper-level tiers of the Panchayats in Andhra Pradesh) have all been heavily dependent on Grants and Transfers from Central and State governments to the extent of around 99.0 per cent.

Table 12*Revenue Dependency of Panchayat Raj Institutions in Andhra Pradesh*

S. No.	Panchayat Raj Institutions	Undivided State					Divided State		
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	Gram Panchayats (13065)	41.4	57.4	36.2	67.8	84.1	75.4	79.1	86.9
2	Mandal Praja Parishads (660)	99.1	99.0	99.2	99.6	99.7	98.6	99.4	99.5
3	Zilla Praja Parishads (13)	92.2	93.4	93.5	99.0	99.0	98.2	99.2	99.5

Source: Tables 2,3,4.

Concluding Remarks

Our analysis brings out the empirical evidence of the fiscal performance of PRIs in Andhra Pradesh over two periods, i.e. pre and post-bifurcated of the State. We observed that the share of MPPs to total revenues is the highest, followed by Gram Panchayats and ZPPs, in both the pre and post-bifurcated periods of the State. In the case of expenditure pattern, revenue expenditure is always dominant relative to capital expenditure in both periods. However, we found that reliance on own revenue sources has been decelerating over the last years. This can be observed from the fact that the share of immovable property tax, which contributed highest in the pre-bifurcated period, made way to dependency on State and Finance Commission grants in the post-bifurcated State. This may be perhaps because 14th Finance Commission grants have been confined to only Gram Panchayats but not to MPPs and ZP. The

study also reveals that fiscal autonomy ratios of MPPs and ZPPs are very low as dependency on their tax revenues is next to negligible in both periods of the State. Even Gram Panchayats, which have exhibited robust fiscal autonomy of 58.6 per cent in 2010-11, started to lose their autonomy over the years as it fell to 32.2 per cent in 2013-13 and 13.1 per cent during 2017-18. Increased dependency on other than local sources, as can be seen from revenues dependency ratios, shows the very high dependency of all three tiers of the Panchayats in Andhra Pradesh on Grants and Transfers from Central and State Governments to the extent of around 80 to 90.0 per cent in both the periods. Unless the State governments allocate a major share of their revenues to the local bodies, and at the same time the local bodies are allowed to inculcate to devolve on their taxes, democratic decentralisation will be only in letter, and the local bodies continue to function as just line agencies of the Central and State governments.

End Notes:

1. The 29 subjects in the Eleventh Schedule of the Constitution include agriculture, land reforms, housing, rural electrification, education, health centres, provision and maintenance of public goods like local road connectivity, street lighting, sanitation, drainage, and water supply, and the public distribution system.
2. Shikha Jha (2004) Panchayats – Functions, Responsibilities and Resources, Working Paper, Indira Gandhi Institute of Development Research (IGIDR), Mumbai – 400 065, India

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