

## Fiscal Decentralisation in Haryana: Some Recent Evidence

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### Abstract

Through 73rd and 74th Constitutional Amendments, Panchayat and Municipal systems were provided a systematic and endurable structure of participatory political process at grass root level. State finance commission is constituted for determination of vertical and horizontal transfers to municipalities and panchayats. Haryana is constituting state finance commission (SFC) regularly and following 15th Finance Commission mandate. Sixth SFC was constituted on 22nd September 2020 for the period 2021-22 to 2025-26. The state has also showed progressive development towards achieving sustainable development goals except gender equality (SDG 5) and life on land (SDG 15) goals. Haryana has been a pioneer state in carrying out fiscal reforms. As per the budget estimates for 2020-21, fiscal deficit was projected at Rs. 25,682 crore, constituting 2.73% of GSDP, which is well within the stipulated norm of 3% under FRBM Act. Similarly, the debt to GSDP ratio has also been maintained below the norm of 25% as prescribed under the FRBM Act. The state of Haryana through the Panchayati Raj Act, 1994 has devolved all 29 functions included in the Eleventh Schedule of the Constitution, to the three levels of Panchayats through inclusion in the Schedules to the Panchayati Raj Act, 1994. Fifth SFC recommended vertical devolution of 7% and horizontal devolution in the ratio of 45% for Municipalities and 55% for Panchayats. Sixth SF report may review previous SFC report, suggest new local taxes, present data on which the reports are based, complain about poor data base, attempt estimates of local taxable capacities in terms of measurable indicators, indicate full O&M requirement of core services and suggest budget and accounting reforms of the local governments. It may recommend to standardize procedures for levy of property & other taxes, norms for basic services and norms for staffing & salaries, incentivize performance through levy & collection of taxes & user charges, economy in expenditure and people's participation.

**Keywords:** Haryana, State Finance Commission, Devolution, Panchayats, Municipalities, Local Governments

### Introduction

73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments were passed by Parliament of India in 1992 and ratified by States in 1993. Through these amendments local self-government was introduced in rural and urban India respectively. Through this enactment, Panchayat and Municipal systems were provided a systematic and endurable structure of participatory political process at grass root level. The amendment has also enlarged the space for people's representation and their agency in matters of governance and moved decisions making closer to them. The operative vision of grass root governance mandated by constitution has given greater emphasis devolution of

powers to panchayats and municipalities as enshrined in the Constitution of India. Article 243 G and other articles of the constitution has made it very explicit that there is greater need for devolution of roles and responsibilities and power and authority to local governments. This translates to statutory transfer of rights, powers, authority and resources as also roles, responsibilities, duties and obligations from State Government to local governments by an Act of Legislative Assembly.

State finance commission is constituted for determination of vertical and horizontal transfers to municipalities and panchayats in the state. Haryana is constituting state finance commission regularly and following 15<sup>th</sup> Finance

Commission mandate. Sixth State Finance Commission (SFC) of Haryana was constituted consisting of Mr. P. Raghavendra Rao as the Chairman on 22<sup>nd</sup> September 2020. The award period of the Sixth SFC is 2021-22 to 2025-26.

The Commission will make recommendations relating to the following matters:-

- “1. (a) the principles which should govern-
  - (i) The distribution between the State and the Zila Parishads, Panchayat Samitis and Gram Panchayats, of the net proceeds of the taxes, duties, tolls and fee leviable by the State which may be divided between them under Part IX of the Constitution of India and the allocation between the Zila Parishad, Panchayat Samiti and Gram Panchayats at all levels of their respective shares of such proceeds;
  - (ii) The determination of the taxes, duties, tolls and fee which may be assigned to, or appropriated by, the Gram Panchayats, Panchayat Samitis and Zila Parishads;
  - (iii) The grants-in-aid to the Zila Parishad, Panchayat Samiti and Gram Panchayat from the Consolidated Fund of the State;
    - (b) The measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads;

2. (a) the principles which should govern-
  - (i) The distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fee leviable by the State, which may be divided between them under Part IX A of the Constitution of India and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
  - (ii) The determination of the taxes, duties, tolls and fee which may be assigned to, or appropriated by the Municipalities;
  - (iii) The Grants-in-aid to the Municipalities from the Consolidated Fund of the State;
    - (b) The measures needed to improve the financial position of the Municipalities.

In making its recommendations, the Commission shall have regard, among other considerations, to:-

- (i) The objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment;
- (ii) The resources of the State Government and demands thereon particularly in respect of expenditure on Civil Administration, maintenance and upkeep of capital assets, maintenance expenditure on plan

schemes and other committed expenditures or liabilities of the State; and

- (iii) The requirements of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and for reducing expenditure.”

The state of Haryana was carved out on November 1, 1966 as a result of bifurcation of the state of Punjab. It is surrounded by Himachal Pradesh in North, Uttar Pradesh in East, Punjab in West and Rajasthan in South. Adjacent to the National Capital Territory of Delhi, the state surrounds it from three sides. It is spread over an area of 44,212 sq. km with an area covering 1.3% of the country. Haryana contributes significant amount of wheat and rice to the pool i.e. a national repository system of surplus food grain. Haryana is India’s 4<sup>th</sup> largest producer of cotton. The state has also made rapid strides in development of industrial sector. Major industries in Haryana are automotive, IT, agriculture and petrochemicals. Haryana’s structural transformation has been seen from an agrarian State to industrial State, with services sector recording robust growth. The state has also showed progressive development towards achieving sustainable development goals except gender equality (SDG 5) and life on land (SDG 15) goals (NITI Aayog, 2021).

Though Haryana is geographically a small State, the contribution of the State to the National Gross Domestic Product at constant (2011-12) prices has been estimated as 3.8% as per Quick Estimates of 2019-20. As per the Advance Estimates for the year 2020-21, the GSDP of the State at current prices has been estimated as Rs. 7,64,872.41 crore, recording the negative growth of 2.0% in 2020-21 due to Covid-19 as compared to the growth rate of 10.7% achieved in 2019-20. The GSDP at constant (2011-12) prices is estimated to be Rs. 5,28,069.75 crore with a negative growth of 5.7% in 2020-21 as compared to the growth of 8.2% recorded in 2019-20. However, this negative growth of 5.7% recorded in real GSDP is lower than the negative growth of 8.0% recorded at All India level in 2020-21. The GSDP of the State at current and constant (2011-12) prices is given in Table 1.

**Table 1: Gross State Domestic Product of Haryana**  
(Rs. In thousand Crore)

| Year    | GSDP at Current Prices | GSDP at Constant Prices | Nominal GDP Growth Rate (%) | Nominal GDP Growth Rate of India (%) |
|---------|------------------------|-------------------------|-----------------------------|--------------------------------------|
| 2011-12 | 0.29                   | 0.29                    | 16.04                       | 15                                   |
| 2012-13 | 0.34                   | 0.32                    | 16.63                       | 13.3                                 |
| 2013-14 | 0.39                   | 0.34                    | 15.05                       | 11.5                                 |

|                |      |      |       |      |
|----------------|------|------|-------|------|
| 2014-15        | 0.43 | 0.37 | 9.49  | 10.5 |
| 2015-16        | 0.49 | 0.41 | 13.35 | 8.7  |
| 2016-17        | 0.56 | 0.45 | 13.30 | 9.9  |
| 2017-18        | 0.64 | 0.48 | 14.88 | 10   |
| 2018-19        | 0.70 | 0.51 | 9.30  | 11.2 |
| 2019-20<br>(Q) | 0.78 | 0.55 | 10.73 | 7.2  |
| 2020-21<br>(A) | 0.76 | 0.52 | -2.02 | -3   |

Note: Q: Quick Estimates A: Advance Estimates

Source: Department of Economic and Statistical Analysis, Haryana

### Per Capita Income

The per capita income is the average income earned per person. At the time of formation of Haryana State in 1966, the per capita income of the State at current prices was only Rs. 608. Since then, the per capita income has increased multi fold with the exception in 2020-21 due to the impact of Covid-19 pandemic. The per capita income of the State at constant (2011-12) prices is estimated to be Rs. 1,63,992 during 2020-21 with a negative growth of 6.9% as compared to the growth rate of 6.8% recorded in 2019-20. At current prices, the State's per capita income is likely to be Rs. 2,39,535 during 2020-21 showing the contraction of 3.3% as compared to the growth of 9.4% recorded in 2019-20. Though, the State is maintaining per capita income during 2020-21 at both current and constant prices higher as compared to the National per capita income of Rs. 1,27,768 and Rs. 85,929 respectively.

### Structural Transformation of Haryana's Economy

At the time of formation of Haryana State, the State's economy was predominantly an agrarian economy. At the beginning year (1969-70) of Fourth Five Year Plan, the contribution of Agriculture and Allied Sectors (crops, livestock, forestry and fishing) to the GSDP at constant prices was the largest (60.7%) followed by Services (21.7%) and Industry (17.6%) Sectors. During the period of 37 years (1969-70 to 2006-07) intervening Fourth and 10<sup>th</sup> Five Year Plans, Industry and Services Sectors registered higher average annual growth than the Agriculture and Allied Sectors which resulted in the increased share of Industry and Services Sectors and decreased share of Agriculture and Allied Sectors in the GSDP. The share of Agriculture and Allied Sectors in GSDP declined from 60.7% in 1969-70 to 21.3% in 2006-07 while the share of Industry Sector increased from 17.6% in 1969-70 to 32.1%

in 2006-07. The share of Services Sector increased from 21.7% to 46.6% during this period. Since the 11<sup>th</sup> Five Year Plan, the pace of structural transformation of the State's economy remained continued. In spite of the robust growth recorded in Services Sector during the past era, the spread of Covid-19 pandemic has largely affected the economic activities in 2020-21. Almost all the sectors with the exception of Agriculture and Allied Activities have been adversely affected. As a result, the share of Agriculture and Allied Sectors has improved to 18.9% in 2020-21 but the share of Industry Sector has decreased to 30.2%. The share of Services Sector at constant prices has been recorded as 50.9% in 2020-21.

### State of Public Finance

Haryana is one of the most progressive States in the country. It has been a pioneer State in carrying out fiscal reforms and fiscal management is reckoned as one of the model state in the country. Public finance relates to the collection of taxes by the Government from those who benefit from the provision of public goods and the use of those tax funds towards production and distribution of public goods. Resource generation, resource allocation and expenditure management (resource utilization) are the essential components of a public financial management system. The purview of public finance is considered to be three fold namely; efficient allocation of resources, distribution of income, and macro-economic stabilization. As a result of prudent fiscal management, fiscal parameters such as fiscal deficit and Debt to GSDP ratio of the State are within the stipulated limits prescribed by the Union Finance Commission and Government of India. As per the budget estimates for 2020-21, fiscal deficit was projected at Rs. 25,682 crore, constituting 2.73% of GSDP, which is well within the stipulated norm of 3% under FRBM Act. Similarly, the debt to GSDP ratio has also been maintained below the norm of 25% as prescribed under the FRBM Act.

### Revenue Receipts and Revenue Expenditure

The revenue receipts comprises State's Own Tax and Non-Tax Revenue, Share in Central Taxes and Grant-in-Aid from Centre. As per Budget Estimates of 2020-21, the revenue receipts of the Government of Haryana are expected to be Rs. 89,964.14 crore against the estimated revenue expenditure of Rs. 1,05,338.09 crore. The revenue receipts of the State Government was Rs. 77,580.73 crore against revenue expenditure of Rs. 92,256.10 crore in 2019-20 (RE). It was Rs. 65,885.12 crore against revenue expenditure of Rs. 77,155.54 crore in 2018-19.

**Table 2: Tax Position of the State****(Rs in Crore)**

| Year         | State's Own Tax Revenue (OTR) | Share in Central Taxes (SCT) | Total Tax |
|--------------|-------------------------------|------------------------------|-----------|
| 2017-18      | 41099.38                      | 7297.52                      | 48396.90  |
| 2018-19      | 42585.60                      | 8250.34                      | 50835.94  |
| 2019-20 (RE) | 47842.04                      | 7111.53                      | 54953.57  |
| 2020-21 (BE) | 52095.65                      | 8484.82                      | 60580.47  |

Note: RE - Revised Estimates, BE- Budget Estimates

Source: State Budget Documents.

### Total Tax

The tax position of Haryana State from 2017-18 to 2020-21 (BE) is given in the Table 2. Total tax comprises of State's Own Tax Revenue (OTR) and State's Share in Central Taxes (SCT). State total tax is expected to increase from Rs. 48,396.90 crore (Rs. 41,099.38 crore OTR + Rs. 7,297.52 crore SCT) in 2017-18 to Rs. 60,580.47 crore (Rs. 52,095.65 crore OTR + Rs. 8,484.82 crore SCT) in 2020-21 (BE).

### Own Tax Revenue

The contribution in Own Tax Revenue from Sales Tax is estimated at Rs. 10,702.15 crore in 2020-21 (BE) as compared to Rs. 10,900.18 crore in 2019-20 (RE). Sales tax is estimated to decrease by 1.82% in 2020-21 (BE) over 2019-20 (RE) due to the implementation of State Goods and Service Tax (SGST). The contribution in tax revenue from SGST is estimated at Rs. 22,350 crore in 2020-21 (BE) as compared to Rs. 19,723.86 crore in 2019-20 (RE) showing an increase of 13.31% in 2020-21 (BE) over 2019-20 (RE). The contribution in tax revenue from State Excise is estimated at Rs. 7,500 crore in 2020-21 (BE) as compared to Rs. 6,700 crore in 2019-20 (RE) showing an increase of 11.94% in 2020-21 (BE) over 2019-20 (RE). The contribution in tax revenue from Stamps and Registration is estimated at Rs. 7,500 crore in 2020-21 (BE) as compared to Rs. 6,600 crore in 2019-20 (RE).

### Share in Central Taxes

Transfer from Centre mainly consists of State's Share in Central Taxes, grant for centrally sponsored schemes, grant under the award of Union Finance Commission and other grants. The Share in Central Taxes is estimated at Rs. 8,484.82 crore in 2020-21 (BE) against Rs.7,111.53 crore in 2019-20 (RE). It shows that Share in Central Taxes is likely to increase by 19.31% in 2020-21 (BE) over 2019-20 (RE).

### Grant-in-Aid

The Grant-in-Aid received in the State is shown in Table 3. Apart from the valuable amount from Central taxes, Union Finance Commission has made recommendations regarding Grant-in-Aid to the States for specific purpose. State is expected to receive about Rs. 13,955.45 crore as Grant-in-Aid in 2020-21 (BE) against Rs. 12,492.07 crore in 2019-20 (RE). It indicates that Grant-in-Aid is likely to increase by 11.71% in 2020-21 (BE) over 2019-20 (RE).

**Table 3: Grant-in-Aid Received from Central Government****(Rs. in crore)**

| Year         | Amount Received |
|--------------|-----------------|
| 2017-18      | 5185.12         |
| 2018-19      | 7073.54         |
| 2019-20 (RE) | 12492.07        |
| 2020-21 (BE) | 13955.45        |

Note: RE - Revised Estimates, BE- Budget Estimates

Source: State Budget Documents

### State of Fiscal Health of Haryana

There are various indicators of measuring fiscal health pertaining to state governments. For the purpose, we would only be using three indicators of fiscal health namely Revenue Deficit (RD), Fiscal Deficit (FD) and Primary Deficit (PD). Broad deficit indicators of – revenue, fiscal and primary deficits – for the period 2001-02 to 2013-14 as ratio of Gross State Domestic Product (GSDP) at current prices are given in Table 4. Data indicates that fiscal health of state improved in early half of the decade upto 2006-07. Since then it started an upward trend and fiscal deficit was as high as 4.9% in 2009-10 primarily due to implementation of sixth pay commission recommendations and fiscal measure undertaken in wake of global financial crisis. Still Haryana has manageable gross fiscal deficit as FC-XII target of 3% for the year 2013-14 is well above fiscal deficit of 2.1% realised by Haryana. But the state is not able to bring its revenue deficit to zero as mandated by 13<sup>th</sup> Finance Commission. This indicates that though Haryana has fiscal deficits within limits set by FRBM Act but it had higher deficits than most of other states in the country and state is able to bring revenue deficit to zero as mandated by FC-XIII. Haryana Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which stipulated that (i) Revenue Deficit to be reduced to zero by 2008 – 09 (ii) Fiscal Deficit to be brought down to 3% of GSDP by 2009 (iii) Debt Liability to be contained to 28% of GSDP by 2010. As per the guidelines of Ministry of Finance, Government of India, the Government of Haryana has

amended its FRBM Act, 2005. Now the Government of Haryana has to attain zero revenue deficit target from 2011–12 and maintain the same till 2014–15, fiscal deficit to be brought down to 3% of GSDP from 2011–12 and maintain the same till 2014–15. The total debt liability to be retained at 22.4% of GSDP in 2010–11, at 22.6% in 2011–12, 22.7% in 2012–13, 22.8% in 2013–14 and 22.9% in 2014–15.

**Table 4: Deficit Indicators of Haryana**

| Year       | Revenue Deficit (%) | Fiscal Deficit (%) | Primary Deficit (%) |
|------------|---------------------|--------------------|---------------------|
| 2011-12    | 0.49                | 2.40               | 1.06                |
| 2012-13    | 1.28                | 2.99               | 1.62                |
| 2013-14    | 0.97                | 2.08               | 0.61                |
| 2014-15    | 1.90                | 2.88               | 1.29                |
| 2016-17    | 2.23                | 4.27               | 2.51                |
| 2017-18    | 1.69                | 3.05               | 1.14                |
| 2018-19    | 1.20                | 2.90               | 0.95                |
| 2019-20    | 2.04                | 2.88               | 1.80                |
| 2020-21 RE | 2.43                | 2.90               | 0.85                |

Source: State Budget Documents

### Devolution to Local Governments

As per mandate of 73<sup>rd</sup> Constitutional Amendment, the State Government has been regularly constituting the State Finance Commission under Article 243-I read with Section 213 of the Haryana Panchayati Raj Act, 1994 from time to time to review the financial position of the Panchayats and to make recommendations on the principles which should govern the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be further divided between them and the allocation between the Panchayats at all levels of their respective shares of such proceeds; the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats; the grants-in-aid to the Panchayats from the Consolidated Fund of the State and the measures needed to improve the financial position of the Panchayats. The grants sanctioned by State Government on the recommendations of the State Finance Commission is distributed/ released to the GPs, PSs and ZPs.

**Table 5: Local Governments in Haryana**

| Particulars            | No        |
|------------------------|-----------|
| Panchayats             | 7030      |
| Zila Parishads         | 21        |
| Panchayat Samitis      | 126       |
| Gram Panchayats        | 6234      |
| <b>Municipalities</b>  | <b>90</b> |
| Municipal Corporations | 11        |
| Municipal Councils     | 22        |
| Municipal Committees   | 57        |

Source: Haryana State Finance Commission Reports

An amount of Rs.31245 lakhs had been released during the year 2016-17. An amount of Rs.45500.00 lakhs had been released in the year 2017-18. Under the Scheme, an amount of Rs.111743.85 lakhs have been spent during the tenure. A budget provision of Rs.50050.00 lakhs has been made for the year 2018-19. An amount of Rs.31245 lakhs had been released during the year 2016-17. An amount of Rs.45500.00 lakhs had been released in the year 2017-18. Under the Scheme, an amount of Rs.146773.85 lakhs have been spent during the tenure. An amount of Rs.50050.00 lakhs has been made for the year 2018-19. An amount of Rs.35030.00 lakh has been released. A budget provision of Rs.114000.00 lakhs has been made for the year 2019-20. An amount of Rs.23125.00 lakh has been released so-for.

**Table 6: Share of Local Governments in Haryana**

| Year   | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|---------|---------|---------|---------|---------|---------|
| Total Revenue (Rs '000 cr)                     | 5416    | 6032    | 6269    | 6588    | 7758    | 8996    |
| Own Tax Revenue (Rs '000 cr)                   | 3493    | 3784    | 4183    | 4274    | 4784    | 5209    |
| Transfer to Municipality and Panchayat (Rs cr) | 308     | 424     | 391     | 222     | 232     | 184     |

Source: Haryana State Finance Commission Reports

### State Finance Commissions in Haryana

SFC was set up in Haryana so that it can improve the condition of the local government in the state. The First SFC was set up in May, 1994. The award period of the First SFC was 1997-98 to 2000-2001. The State Government has accepted the recommendations of the First SFC regarding sharing of taxes/duties/fees and has

also recommended certain grants to Panchayats. Second SFC was set up on September, 2000 to review the financial position of Panchayats and to make recommendations with regard to distribution of the net proceeds of taxes/duties and fees etc. between the State Government and Panchayats and to suggest measures needed to improve their financial position. The award period of the Second SFC was 2001-02 to 2005-06. It made recommendations for transfer of Rs. 578.58 crore to Panchayats for the period 2001-06. There is no information as to whether these recommendations were accepted. According to the figures available on the transfer of funds to Panchayats, it does not seem as if they have been accepted. Third SFC has also been set up in February, 2005 to review the financial position of Panchayats and to make recommendations with regard to distribution of the net proceeds of taxes/duties and fee etc between the State Government and Panchayats and to suggest measures needed to improve the financial position of Panchayats. The Fourth SFC was constituted on 16<sup>th</sup> April 2010 to review the financial position of PRIs and to make recommendations with regard to distribution of the net proceeds of taxes/duties and fee etc. between the State Government and PRIs and to suggest measures needed to improve the financial position of the Institutions. Under this scheme, an amount of Rs. 82862 lakh has been earmarked for the 12<sup>th</sup> Five year plan (2012-17). Rs. 17186 lakh has been approved for the Annual Plan 2012-13. The Governor of Haryana constituted the Fifth SFC of Haryana on 26<sup>th</sup> May, 2016. The award period of the Fifth SFC was 2016-17 to 2020-21. Fifth SFC recommended vertical devolution of 7% and horizontal devolution in the ratio of 45% for Municipalities and 55% for Panchayats.

### Box 1: Glimpses of State Finance Commission's Recommendations

#### First State Finance Commission

- First SFC was constituted on 31st May, 1994 covering the period of 4 years i.e. 1997-2001
- The report of 1<sup>st</sup> SFC was submitted in March 1997 and the ATR was laid in September 2000.
- State Government considered only one year i.e. 2000-01.
- No reasons mentioned in the ATR for non-acceptance of the recommendations.
- SFC recommended Rs. 263.38 crore for 2000-01, Rs.144.59 crore for Panchayats, and Rs.118.79 crore for Municipalities.
- State Government accepted of Rs.99.49 crore, Rs.34.13 crore for Panchayats and Rs.65.36 crore for Municipalities.
- Only Rs.66.36 crore were transferred to the local government during 2000-01.
- Municipalities were given Rs.65.36 crore, but Panchayats were given only Rs.1.00 crore

#### Second State Finance Commission

- 2<sup>nd</sup> SFC was constituted on 6<sup>th</sup> September, 2000 covering the period of 4 years i.e. 2001-2006
- The report of 2<sup>nd</sup> SFC was submitted in September 2004 and the ATR was first laid in December 2005, then on 16<sup>th</sup> September 2006 and on 6<sup>th</sup> March 2007.
- State Govt. considered only one year i.e. 2005-06.
- No reasons mentioned in the ATR for non-acceptance of the recommendations.
- SFC recommended Rs.231.05 crore for 2000-01, Rs.138.43 crore for Panchayats, Rs.92.62 crore for Municipalities.
- State Govt. accepted of Rs.100 crore, Rs.50 crore for Panchayats and Rs.50 crore for Municipalities.
- Rs.100 crore were transferred to the local bodies during 2005-06.
- Municipalities were given Rs.50 crore and Panchayats were given Rs.50 crore

#### Third State Finance Commission

- Third SFC was constituted on 22<sup>nd</sup> December, 2005 covering the period of 4 years i.e. 2006-2011
- Recommended sharing of state taxes at the rate 4% excluding Excise Duty and LADT with Panchayats and Municipalities after retaining 1.25% as collection charges of the Government
- Devolution to Panchayats and ULBs in the ratio of 65:35 giving a weightage of 40% to population, 25% to SC population, 25% to number of villages & cities/towns and 10% to literacy gap.
- State Govt. accepted @ 2% i.e. Rs. 637.94 crore. Panchayats: Rs. 414.66 crore (65%) and Municipalities: Rs. 223.28 crore (35%)
- State Government already provided Rs. 284.28 crore to Panchayats and Rs. 190 crore to Municipalities for the period of 2006-2009
- In 2012-13, State Government has given Rs. 266.56 crore to Panchayats.

#### Fourth State Finance Commission

- 4<sup>th</sup> SFC was constituted on 16<sup>th</sup> April, 2010 covering the period of 4 years i.e. 2012-2015
- The report of 4<sup>th</sup> SFC was submitted in June 2014.
- As per the recommendations of 3<sup>rd</sup> SFC and the decision of the government Rs. 1674.33 crore has been provided to the local bodies from the years 2010-11 to 2014-15.
- The Panchayats share to allocate among GPs at the district level: PSs: ZPs in the ratio of 75:15:10 respectively.
- The share of local bodies, both Panchayats and Municipalities, has recommended 7% of the divisible pool i.e. net own tax revenue.

#### Fifth State Finance Commission

- 5<sup>th</sup> SFC was constituted on 26<sup>th</sup> September 2016. The report of the commission covers the five year period commencing from 01 April, 2016 to 31 March, 2021.
- A basic grant of nearly 3495.17 crore has been granted to the Panchayats during 2015-20 and 1663.95 crore to Municipalities.
- It is recommended that financial devolution of 7% of the State's Own Tax Revenue (SOTR) to local bodies in the ratio 55:45 (Panchayats: Municipalities) and stamp duty of 2% will be over and above the recommended devolution of 7% of SOTR to local bodies.
- Distribution criteria will be based upon the population and area in the ratio of 80:20.
- Inter-se share of rural bodies will be in the ration of 75:15:10 among Gram Panchayat, Panchayat Samiti and Zilla Parishad.
- Specific grants of Rs. 250 crore for establishment of State Level Urban Shared Service Centre and Rs. 70 crore for Swarna Jayanti Haryana Institute for fiscal management.

Source: Haryana State Finance Commission Reports

#### Devolution and Delegation as per State Panchayati Raj Act and Rules

The state of Haryana through the Panchayati Raj Act, 1994 has devolved all 29 functions included in the Eleventh Schedule of the Constitution, to the three levels of Panchayats through inclusion in the Schedules to the Panchayati Raj Act, 1994. However, so far, activity mapping has been done for fourteen departments only along with funds and functionaries been devolved upon Panchayats.

#### Panchayat Finances

Provision of adequate financial powers to the Panchayats by equipping them to generate sufficient resources on their own is necessary to enable them discharge their functions and obligations satisfactorily. Under the Haryana Panchayati Raj Act, 1994, Panchayats have been given powers to impose taxes and fees. The Act also provides that the Panchayats may impose any tax, duty or cess which the State Legislature has powers to impose, if so authorized by the government. However, only house tax has been imposed as per 117 (I) of Panchayat Rules in the following rates :

- (i) A land owner or a shop keeper Rs. 30 per annum
- (ii) A tenant of land or an artisan Rs. 20 per annum
- (iii) An unskilled labourer Rs. 10 per annum
- (iv) Any other person not falling under above categories may be bracketed with the above classes as may be determined by GP.

House tax is an important source of income to Panchayats. The State Government had abolished House tax with effect from 01.11.2007. Again State Government has enabled the Gram Panchayats by issuing a notification to impose house tax in rural areas. Our field study reveals that in almost all sample panchayats, house tax is being collected by GPs. In Haryana, Shamilat land is the main source of income to Panchayats. The panchayats have 849587 acres of shamilat land out of which 233051 acres are cultivable shamilat land and 598856 acres of uncultivable shamilat land. During the year 2012-13, the income from shamilat land was Rs. 230.94 crore. Our study in sample panchayats reveals that lease money is being collected from shamilat land in almost all villages.

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