

PART V

RESOURCE ALLOCATION MECHANISM (RAM)

CHAPTER 1

INTRODUCTION

5.1.1. Our country has a multi-level system of planning and financing. With its vast size and varied geo-physical characteristics, management of the country from one central point has been witnessing severe impediments. It is inescapable that the country's administrative apparatus should be disaggregated into smaller units. The micro-level organizations, viz., Village Panchayats and other Urban Local Bodies should be strengthened in terms of finance and administration to achieve satisfactory delivery of services to the people.

5.1.2. The basic facilities and amenities needed in the villages and urban centres have still not been provided in full measure. In spite of large investments on infrastructure through successive Five Year Plans, many villages are still languishing for want of basic amenities. Sanitary conditions are worsening, because of increasing population and due to neglect of sanitary duties by the local bodies for a variety of reasons.

5.1.3. Paucity of finance is quoted as the major handicap for the low service level. The basic needs of citizens in villages and towns would cost a heavy amount of expenditure in total. But, still it will be lesser than the investment made in major schemes and public sector undertakings. For example, it may involve huge money to put up a fertiliser project or a steel complex. With a long gestation period it would cost much more with time and cost overruns for these projects to come to fruition. Fertiliser and steel are certainly important. They are needed to move the wheels of the economy. But equally important and urgent are

Drinking Water

Street Lighting

Environmental hygiene

Public Health and Sanitation

They are essential for quality of life of every citizen.

5.1.4. Right from the independence of our country, huge sums had been invested in building basic infrastructure such as schools, roads, water supply, street lighting, Primary Health Centres etc. However, it is regrettable to record that sufficient attention has not been paid to the maintenance of these assets to facilitate utilisation by public to their fullest satisfaction.

5.1.5. The Commission considers that a fundamental change is called for, in the budgetary process. The basic needs are to be identified on the basis of long felt needs of the area and the expectation of the people which would emerge out of the changes in socio economic environment. Priority in allocating resources in the budget will have to be made, not only for creation of basic amenities, but also for maintenance of the Assets. There is an imperative need to redesign the Centrally-sponsored schemes like JVV, Employment Guarantee Scheme etc., providing for discretion to the State Government to make allocations in such a manner that basic amenities and felt needs of the area are met on priority basis. This change in approach itself would increase availability of funds for meeting basic needs.

5.1.6. In the context of Federal Finance in India, the most productive and elastic tax resources are with Government of India (e.g.) Income tax, Customs and Excise Duty etc. Equally productive and elastic taxes are with State Government (e.g) Sales Tax. What are left to the local bodies are inelastic and less productive. Further the administrative machinery for collecting local taxes is ill-equipped in terms of adequacy of staff, competence, effective systems of levy and collection etc. The financial structure of our country is like that of a strong man with strong hands, strong body standing on extremely weak legs.

5.1.7. The current scenario is that the metropolis and urban conglomerates are developing and expanding due to increase in population. The rural areas face paucity of facilities of basic nature, hindering the achievement of minimum standard of living, despite huge investment for infrastructure developments. Even in urban centres which are considered as developed areas, the quality of life is nothing to be proud of, in view of the congestion of population and the need for better infrastructure facilities, considering the population explosion.

5.1.8. All the natural resources—the land, mines and minerals are mainly in the rural areas. All agricultural production which is most indispensable for sustenance are from the villages. Similarly all industrial and commercial activities have been taking place in urban areas. The following questions are often addressed:

- 1) Whether the local areas get adequately compensated in terms of financial and other assistance for their basic civic amenities?
- 2) How would the Panchayati Raj institutions and Urban Local Bodies achieve the objectives enunciated in the 73rd and 74th Constitutional Amendments and State legislation, in the context of inadequate resource position?

5.1.9. The inter-Government transfer of funds has come to stay as a permanent feature in federal finance. The micro level units of administration -many of them being anaemic—have necessarily to look up to the State and Central Governments for financial succour for carrying out their obligations. But this is nothing new. Sharing of resources by the Central/ State Government with Local Administration is a universal phenomenon.

5.1.10. The answer to the question therefore indicates that dependency on higher tiers of Government for financial assistance is inevitable for a long time to come though the concept of Self-Government with a large degree of autonomy is the ultimate goal to be reached.

5.1.11. Every citizen contributes some revenue either through tax or some levy to atleast one of the three bodies viz., Central Government, State Government or Local Bodies. Being close to the people, Local Bodies feel shy of enhancing taxes or increasing levies. They even welcome stiff instructions or orders from the distant Government so that no harm occurs to their popularity. This attitude needs change, since they become a part of self Government and are responsible not only to deliver the services but also to enhance their resources to the extent possible in the local area. This is just to indicate that chances for augmenting the own resources in Local Bodies by direct taxes or levies are some what limited in scope, since they are hedged in by several socio-economic and psychological factors. Hence, taxes/levies mobilised by higher levels of Government, and Resource allocation by these Governments to the Local Bodies has come to acquire a long term significance and has to be acknowledged as a major component of the financial strategy for Local Body Finance. In other words, allocation of resources by the higher level Government, to Local Bodies has emerged as a major factor in Financial Federalism. The Local Bodies legitimately expect adequate financial assistance from the State and Central Governments in view of their limited and inelastic fiscal domain. The State and Central Governments have a duty, solemnised by the Constitution and conformity Acts, to extend maximum help and financial assistance to the Local Governments, commensurate with the functions devolved on them.