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Finance of Panchayati Raj Institution: A Rural Self Governance Body

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Abstract:- 73rd amendment of the Constitution passes a law in 1993, giving panchayats a constitutional status which means panchayats are local self governance body, making them a third tier governance. The purpose of the study is to analyze the state of finance of the panchayati raj institution, its making and the role they play in the working of a three tier government. .The paper brings out the anomalies in the assignment between Centre, state and local bodies. Critically analyze the lack of funding to the local bodies at rural level.

Keywords:- *Decentralization, Rural Finance, Panchayati Raj Institution, Federalism.*

I. INTRODUCTION

Local self government refers to the third tier government at local level. Centre at first tier, state at second and local government at third. 73rd amendment of Indian Constitution gives recognition to panchayat raj institution. This means PRIs are local government at village, block and district level. Mahatma Gandhi was the first to advocate the concept of PRIs. Act was passed to strengthen the function of RLBs and promote the development plans at the grass root of the economy and to provide basic public services to rural population of India.

73rd amendment act provides the provisions regarding the devolution by the state legislature of powers and responsibilities upon the panchayat with respect to the preparation of plans for economic development and social justice and for implementation of development plans, Act also provides provision for the reservation of women, schedule cast and schedule tribe in the governing body and conduct elections every five years. Act also makes it mandatory for state to appoint SFC every five years to give recommendation to state government on devolution of taxes and revenue to Panchayats. There are 29 subjects listed in 11th schedule which empower local government ability to levy and collect appropriate taxes, duties and fines. Article 40 of Indian Constitution states that state shall take appropriate steps to implement the panchayat and gives them authority to perform their function,

However, there is a considerable difference between what is intended in law and how it is implemented. By all accounts, the states have been reluctant to devolve powers to local government. Most state government has devolved only a few of the 29 functions listed in the schedule and the powers devolved even in respect of the devolved functions are not significant.(Rao, Raghunandan, Gupta, Datta, Jena, Amarnath 2011). All the provisions related to the finances of panchayats as well as the subject to be transferred to the PRIs is left to the will and whims of the state government and in most of the cases the state government has not been very generous (Ansari 2002).

PRIs exist at village, block and district level. As of 2017 there were 2,67,428 local government bodies, out of which 2,62,771 exist at rural level. There are 632 zila parishad(work at district level), 6672 are panchayat samiti(work at block/taluka level) and rest 2,55,466 are gram panchayat(work at village level).

Main responsibilities assigned to panchayats are:

- To help implementation of the development programmes and schemes of the panchayat
- Provide basic basic public facilities
- Drinking water
- Health facilities
- Sanitation
- Education
- Street lighting

The 73rd CAA was introduced with a view that it will be a way to increase the efficiency of public services at rural level, however the evidence point out a different scenario. There is not enough autonomy provided to panchayats and in addition to it the revenue raised by panchayats are negligible and they are highly dependent on federal transfers. Major revenue raising power assigned to panchayat consist of (1) property tax (2) entertainment tax (3) advertisement tax (4) taxes on sale and registration of vehicles (5) income from rent (6) development charges (7) fees and fines. Main problem faced by the RLB's is that amount raised by above mentioned items is not enough for panchayats to perform it's services and deliver efficient public services and above that they do not have proper administration and infrastructure to levy these taxes efficiently.

II. FINANCIAL AUTONOMY

Financial autonomy of panchayats can be calculated as the ratio of revenue raised by panchayats own resources to the total revenue of panchayats (Oommen 2000). Panchayat total revenue consists of:

- Central finance commission transfer
- Union government transfer
- State finance commission transfer
- Grant in aid from state government
- Own revenue
- Other grants

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To ensure the performance of statutory duties, the act empowers the panchayats to collect number of taxes and fees. Major revenue raising power assigned to panchayat consist of (1) property tax (2) entertainment tax (3) advertisement tax (4) taxes on vehicle and animals (5) rental income (6) development charges (7) fees and fines (8) user charges on services. In addition to these self financing items, the panchayati raj act provides for assigned and devolved revenues. Assigned revenues are those that are directed to gram panchayats but are collected by state government to ensure greater ease and efficiency of collection. They include stamp duty, local cess and local cess surcharges that are remitted to panchayats every six months. Devolved revenue are grants from the state government on the recommendation of SFC.(Anand sahasranaman 2012). Table below shows the fiscal autonomy ratio for panchayat at village, intermediate and district level as well as at overall level. We can see that overall fiscal autonomy ranges from 3.30% in 2014-15 to a low of 1.57% in 2017-18. The decreasing trend is seen due to increasing transfer and a low value of revenue from own sources. The decline is due to increasing transfer of the PRIs both by State and Central government. Fiscal autonomy can also be calculated by the ratio of conditional grants to the basic grants or total grants. This low level of fiscal autonomy makes it hard for panchayats to cover its Expenses this is due to the low level of devolution and low earnings from the taxes assigned to the RLBs.

	Gram panchayat	Intermediate	District	Total own revenue
2013-14	9.63	1.04	2.1	2.09
2014-15	8.9	2.4	3.36	3.35
2015-16	7.5	1.57	2.7	2.44
2016-17	7.99	1.49	1.6	1.58
2017-18	5.9	2.22	1.6	1.57

Table 1:- Own revenue of panchayat as a percentage of total revenue

Source : calculated from data provided by 15 Fc reports. reports from centre for policy research. Figures provided are in terms of percentage.

V.N ALOK (2019) in his report 'financial matrix of empowerment' argued that state could reduce the vertical imbalance by assigning a few buoyant taxes and revenues to panchayat. But the limited financial space open to state and perceived low organizational and administrative capacity e of panchayats have prevented the states from exercising the option. The dependence on fiscal transfers particularly conditional and purpose specific ones is reducing the autonomy of panchayats to allocate resources according to their own priorities.

III. COMPOSITION OF TRANSFERS

In table 2: The data in bracket shows the percentage terms of the total transfer in a particular year. The following conclusions can be drawn from the table:

- There is a large valuation in the CFC transfer in a period of 2015-16 to 2016-17 the transfer increased by 17 times in this period the result of the increase can be seen in the decrease in Grant in aid for state government during the same period.
- The total transfer should a cyclic movement it increased first and decrease the following year how are there is no significant increase over the period.
- Grant in aid from state government play some major source of revenue for the rural local bodies all these years and constant increase can be seen over the period.
- There can be seen a decrease in grant in aid form union government in terms of percentage because the government started to diverted the transfer of funds from other sources.

	2013-14	2014-15	2015-16	2016-17	2017-18
CFC Transfer	28851 (4.88)	36550 (6.02)	13058 (2.54)	229,703 (30.40)	5024 (0.8)
Union government transfer(schemes)	12819.3 (19.09)	76114 (12.54	78354 (15.28)	58526 (7.74)	27482 (4.78)
State finance commission	7647.63 (1.29)	11305 (1.86)	5605.1 (1.09)	7033.66 (0.93)	8507.2 (1.48)
Grant in aid from state government	422703 (71.55)	466091 (76.81)	404744 (78.97)	449018 (59.44)	519781 (90.49)
State government transfer (schemes)	12241.8 (2.07)	7375 (1.21)	8312.17 (1.62)	8066 (1.06)	4750.82 (0.8)
Other grants	6419.91 (1.08)	7349.98 (1.21)	2425.36 (0.4)	2662.95 (0.3)	17097.5 (2.97)
Total	590721 (100)	606789 (100)	512502.4 (100)	755399 (100)	574391.8 (100)

Table 2:- composition of transfer received by panchayati raj institution

Source: calculated from data provided by 15 FC reports.

Reports from centre of policy research. Figures are in crore

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IV. COMPARISON OF PER CAPITA REVENUE AND EXPENDITURE

Per capita values of revenue and expenditure shows the strength and weakness of rural local bodies in the particular state the highest value of per capita revenue is in Maharashtra at Rs. 1191.8 while the Odisha has the lowest value of capital revenue at Rs. 8.2. The highest per capita expenditure is in the state of Karnataka.

States	Per capita revenue	Per capita expenditure
Andhra Pradesh	110.3	1622.9
Bihar	0	0
Chhattisgarh	24.0	3776.4
Gujarat	294.60	4444.1
Goa	0	1839.3
Haryana	133.3	828.5
Jharkhand	15.5	281.5
Kerala	126.7	1449.5
Karnataka	114.9	6647.4
Madhya Pradesh	0	0
Maharashtra	1191.8	5779.7
Odisha	8.2	1093.3
Punjab	231.1	341
Rajasthan	0	0
Tamil Nadu	209.2	1293.5
Telangana	0	0
Uttar Pradesh	74.1	308.7
West Bengal	84.2	1796.2

Table 3:- per capita revenue and expenditure of PRIs (data is average from period of 2013-14 to 2017-18)
Source: report Indian institute of public administration. Figure showed is in Rs.

It can be observed from the table that there is a large per capita revenue gap observed in the finance of panchayats which shows the inability of panchayats to raise revenue and poor infrastructure. The figured of per capita expenditure are high in some states but they are still not sufficient for the development of rural areas. Figures for some states are zero because of the non availability of data provided by the RLBs of some state

The economic survey of India of 2017 points out the following fact:

- The rural panchayat spend Rs.999 per resident annually and state government spends Rs. 6000 per resident annually in rural areas. This show the dependence of rural government over the state government for expenditure fund.
- Panchayat on revenue is around Rs 49 per rural resident annually.
- Central and state spends roughly 15 to 20 times more per capita on average than the rural local body

V. CONCLUSION

- The transfer to the PRIs are dependent on the state legislature, but states have not been generous for the development and strengthening of PRIs
- PRIs play a major role in the implementation of centrally sponsored schemes in which they have no autonomy. They only play the role of merely an agent
- The transfer of revenue is high only at district levels from all the sources compare to gram panchayat and intermediate panchayat
- Transfer by both center and states are not enough for large size of panchayat
- The major problem faced by SFCs is that there is no precise data available for all the states. States like Bihar, Rajasthan has poor collection of data which make difficult to provide grants to panchayat, so it should be made mandatory for panchayat to maintain records and accounts. Grants should should only be released on maintaining proper record.
- The transfer should be based partly on the basis of per capita and partly on the basis of performance of the panchayat for equitable development and motivation of panchayat to maintain proper accounts

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- Many panchayats does not make the full use grants which showed the lack of motivation for development among the PRIs

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