SOS POLITICAL SCIENCE & PUBLIC ADMINISTRATION

M. A PUBLIC ADMINISTRATION

RURAL LOCAL ADMINISTRATION: WITH DUE REFERENCE TO M. P(404)

UNIT-IV

TOPIC NAME-PANCHAYATI RAJ FINANCE IN M. P

INTRODUCTION-

In India, the **Panchayati Raj** generally refers to the local self-government of villages in rural India as opposed to urban and suburban municipalities, this system was introduced by a constitutional amendment in 1992. Although it is based upon the historical *panchayat* system of the Indian subcontinent. The recommendation of LM Singhvi Committee (1986) was accepted. This Panchayati Raj system was formalized in 1992, following a study conducted by a number of Indian committees on various ways of implementing more decentralized administration. The modern Panchayati Raj and its *Gram Panchayats* are not to be confused with the extra

constitutional *KhapPanchayats* (or *Caste Panchayats*) found in northern India.In India, the Panchayati Raj now functions as a system of governance in which gram panchayats are the basic units of local administration. The system has three levels:

Gram Panchayat (village level) , Mandal Parishad orBlock *Samiti* or *Panchayat Samiti* (blocklevel), and *Zila Parishad*(district level). It was formalized in 1992 by the 73rd amendment to the Indian Constitution. Currently, the Panchayati Raj system exists in all states except Nagaland, Meghalaya, and Mizoram, and in all Union Territories except Delhi.

The Panchayats receive funds from three sources:

- Local body grants, as recommended by the Central Finance Commission
- Funds for implementation of centrally sponsored schemes
- Funds released by the state governments on the recommendations of the State Finance Commissions
-

Rural Local Bodies have the duties of providing basic amenities and civic services to rural population. The Rural Local bodies are empowered to collect taxes to raise their own resources to perform their duties. However, the funds collected through their own revenues do not suffice. Therefore, the Government (Central and State) devolves part of their own tax revenues to the rural local bodies to meet their needs.

Article 243(I) and 243(Y) of the Constitution of India incorporated by 73rd and 74th Amendment Acts heralded a new era in the history of the Local Bodies by providing for the constitution of a State Finance Commission in all the States within one year from the commencement of the Constitution 73rd Amendment Act, 1992 initially and thereafter at the expiry of every five years to recommend devolution of funds to the Local Bodies.

The Central Government also asked the Central Finance Commissions to recommend the quantum of Central Government funds to be devolved to the local bodies from Tenth Central Finance Commission onwards.

The Assigned/Shared revenues are one which are collected by State Government but transferred/shared to/with local bodies. The major sources of assigned/shared revenues to the rural local bodies are Local Cess, Local Cess Surcharge, Surcharge on Stamp duty, Entertainment tax, seigniorage fees and lease amount of mines and minerals, and sale proceeds of Social Forestry plantations.

Presently, one of the most significant sources of funds for Gram panchayats are grants from the Central Finance Commission. The ear marked funds are to the tune of Rs. 2.12Lakh crores for the period 2015–2020, for approximately 2.28Lakh Gram Panchayats in the country. Beyond this, there are grants from state finance commissions. Own sources of revenue (taxes, tariffs and fee) are largely untapped in most Gram Panchayats.

Then there are funds which panchayats influence spending on, but are not credited to their account, such as NREGS, Swachch Bharat Mission, Housing scheme of PMAY.

Overall, even a small Gram Panchayat of about 2000 population can influence spending of close to Rs. 1 cr. per annum.

Source of funds are both from state & central . There are separate funds called BRGF called Backward Region Grant Funds . Few funds are routed through schemes like IAY , MNREGA . Funds provided based on the recommendations of the Central Finance Commissions. Apart from these , there are funds from rural development , MP LADS , MLA LADS , MLC LADS etc . Gram panchayat has various means on how to generate funds for development.

Sources of funds for gram panchayat : Land revenue , tax on toddy (specifically in South India , tax on vehicles , tax on the industries which are located in geographical boundaries of the village , toll tax , festival tax .

However , Gram Panchayat can claim funds from ngo's , educational trusts , religious institutions , international agencies for inclusive development of the village. In crisis , the district collector can allocate funds . District development agency is actively involved in this process.

Recently , programs like sansad adarsh yojana had created a lot of enthusiasm in developing model villages which plays the role of catalyst in sourcing funds.

The Gram panchayat had a imbibed philosophy of Gandhian thought of model village with emphasis on self-reliance, just and equitable and non-violent order.His philosophy is based on economic self-reliance, social equality and decentralized political system which gives a strong foundation for self-reliant villages. If villagers can produce their own goods of consumption , say , vegetables , rice, food crops , fruits , pulses etc ,community halls, the cost of monthly expenditure will be reduced drastically , giving a greater option for savings or investments.For example , if villager can cooperate with his /her co-villager in matters of finance , the dependency of funds on authorities will be reduced . Self help groups have contributed to cover the gaps . In simple terms , this can be said as swaraj or the complete republic. **Rang De - Invest in rural entrepreneurs today** www.**rangde**.org/ is an organization which helps in accumulating funds through crowd source funding . Hence , a Gram panchayat can source funds from multiple sources , given that it has a legality and the work is within the system .

Gram Panchayat Funds

A major portion of Part IX of the Constitution covering Articles 243C, 243D, 243E, 243 G and 243 K deals with the structural empowerment of the PRIs but the real strength in terms of both autonomy and efficiency of these institutions is dependent on their financial position (including their capacity to generate own resources). In general, Panchayats in our country receive funds in the following ways:

-Grants from the Union Government based on the recommendations of the Central Finance Commission as per Article 280 of the Constitution

-Devolution from the State Government based on the recommendations of the State Finance Commission as per Article 243 I

-Loans/grants from the State Government

-Programme-specific allocation under Centrally Sponsored Schemes and Additional Central Assistance

-Internal Resource Generation (tax and non-tax)

Across the country, States have not given adequate attention to fiscal empowerment of the Panchayats. Panchayats' own resources are meagre. Kerala, Karnataka and Tamil Nadu are the states which are considered to be progressive in PRI empowerment but even there, the Panchayats are heavily dependent on government grants. One can draw the following broad conclusions:

-Internal resource generation at the Panchayat level is weak.

-This is partly due to a thin tax domain and partly due to Panchayats' own reluctance in collecting revenue.

-Panchayats are heavily dependent on grants from Union and State Governments.

-A major portion of the grants both from Union as well as the State Governments is scheme specific. Panchayats have limited discretion and flexibility in incurring expenditure.

-In view of their own tight fiscal position, State Governments are not keen to devolve funds to Panchayats.

-In most of the critical Eleventh Schedule matters like primary education, healthcare, water supply, sanitation and minor irrigation even now, it is the State Government which is directly responsible for implementation of these programmes and hence expenditure. Overall, a situation has been created where Panchayats have responsibility but grossly inadequate resources.

For fiscal decentralization to be effective, finances should match expenditure assignments related to the transferred activities. This calls for a two-fold approach – first demarcation of a fiscal domain for PRIs to tap resources directly both Tax and Non-tax and second devolution of funds from the Union and State Governments.

In the Indian context, the concept and practice of local government taxation have not progressed much since the early days of the British rule. Most of the revenue accrual comes from taxation of property and profession with minor supplement coming from non-tax receipts like rent from property and fees for services. It is high time that a national consensus emerges on broadening and deepening the revenue base of local governments. A comprehensive exercise needs to be taken up in this sector on a priority basis.

The exercise will have to simultaneously look into four major aspects of resource mobilisation viz.

(i) potential for taxation

(ii) fixation of realistic tax rates bi

(iii) widening of tax base and

(iv) improved collection.

Devolution of funds from the higher tiers of the government forms a major component of the Panchayat's resources.

Own Resource Generation

Though, in absolute terms, the quantum of funds the Union/State Government transfers to a Panchayat forms the major component of its receipt, the PRI's own resource generation is the soul behind its financial standing. It is not only a question of resources; it is the existence of a local taxation system which ensures people's involvement in the affairs of an elected body. It also makes the institution accountable to its citizens.

In terms of own resource collection, the Gram Panchayats are, comparatively in a better position because they have a tax domain of their own, while the other two tiers are dependent only on tolls, fees and non-tax revenue for generating internal resources.

The taxation power of the Panchayats essentially flow from Article 243 H which reads as follows: "the Legislature of a State may, by law

-authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;

-assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;

-provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State; and

-provide for constitution of such funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys therefrom as may be specified in the law."

State Panchayati Raj Acts have given most of the taxation powers to Village Panchayats. The revenue domain of the intermediate and District Panchayats (both tax as well as non-tax) has been kept much smaller and remains confined o secondary areas like ferry services, markets, water and conservancy services, registration of vehicles, cess on stamp duty and a few others.

A study of various State Legislations indicates that a number of taxes, duties, tolls and fees come under the jurisdiction of the Village Panchayats. These inter alia include octroi, property/house tax, profession tax, land tax/cess, taxes/tolls on vehicles, entertainment tax/fees, license fees, tax on non-agriculture land, fee on registration of cattle, sanitation/drainage/conservancy tax, water rate/tax, lighting rate/tax, education cess and tax on fairs and festivals.

Gole of the Finance commission for Panchayati raj

The Ministry of Panchayati Raj including its Secretary, Shri Rahul Bhatnagar and senior officials made a presentation to the Chairman of 15th Finance Commission, Shri N.K. Singh, its Members and senior officials of the Commission.

It may be noted that Article 280 (3) (bb) of the Constitution specifies that the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State should be on the basis of the recommendations made by the Finance Commission.

Amongst several proposals to the Finance Commission, the Ministry has proposed an allocation of Rs. 10,00,000 crores to Panchayats by the 15th Finance Commission which is a hike of 399 per cent from that given by the 14th Finance Commission.

The meeting discussed in detail the proposals of the Ministry which included:

- Allocations to different categories of Panchayats.
- Modification in modality for provision of Performance Grant.
- Allocation of funds to non-part IX areas/ DPs & IPs and UT Panchayats.
- Sustainable Development Goals linked to activities other than construction.
- Need for increased adoption of Digital Technology by the Panchayats.
- Augmentation of Own Source Revenue- Mechanism to be developed by State Govt.

Both the Ministry and the Commission agreed to the view that all three tiers of Panchayati Raj Institutions should receive fund devolution, and the proportionality should be within a specified band.

The Commission will go through all the proposals which shall also be part of the Memorandum of the Central Government to the Commission – for the purpose of making its final recommendations.