

---

## **Fiscal Empowerment of Panchayats in India**

**M. Shafi Bhat**

Post Doctoral Fellow  
Indian Council of Social Science Research (ICSSR)  
JNU Institutional Area, New Delhi - 110 067, INDIA.

(Received on: December 12, 2017)

### **ABSTRACT**

In recent years, there has been a world-wide trend towards decentralization. Many countries have experienced devolution of administrative, political and fiscal responsibilities to lower levels of government. Dissatisfaction with the prevailing centralized systems of service delivery, transition from centralized planning to market economy, deepening democratic principles and increasing need to recognize social, economic and political diversities in different regions within the countries are some of the important reasons cited for this phenomenon. This trend towards decentralization is seen in countries with federal as well as unitary systems; it has spanned across developing as well as developed countries. The trend was also seen in transitional countries and even military dictatorships as in democratic countries. The focus of the present paper is to review the financial position of Panchayats in India. It is argued here that Panchayats have very little fiscal autonomy. The locally raised revenues are very negligible. The funds flow from higher level governments is very low and lack any devolution design or principles. The transfers are made at the convenience and mercy of such governments.

**Keywords:** Panchayats, administrative, political and fiscal responsibilities to lower levels of government.

### **INTRODUCTION**

India is a federal country with multi-level governance structure - the Central government at the national level, state governments and Union Territories at the sub-national (regional) level and local bodies (rural and urban) below the state level. The rural local bodies, popularly known as Panchayats, have been in existence since ancient times in different forms but failed to have a firm foothold for various reasons mainly because of lack of Constitutional mandate and non-devolution of functions and resources.

Keeping in view the historical blunders committed in the earlier experiments and the need for decentralized governance system in the globalised era, the Central Government in 1992 introduced the 73rd and 74th Amendments to the Constitution. The former Amendment relates to rural local governments i.e. Panchayat Raj Institutions (PRIs) and the latter to Urban Local Bodies (ULBs). Many provisions were incorporated under the 73rd Amendment Act with the intention of making Panchayats self-governing institutions. The important provisions of the 73rd Amendment Act are: compulsory elections to PRIs once in five years, reservation of seats and executive positions for Scheduled Castes/Scheduled Tribes (SCs/STs), backward classes (optional) and women, the constitution of Finance Commission and District Planning Committees. These have made the Panchayats one of the permanent political structures in India. Apart from the Central Government, there are 28 states and seven Union Territories at the sub-national level, 3723 ULBs, nine Autonomous District Committees and 243676 Panchayats at the sub-state level. The Panchayats again have a three-tier structure below the state, namely, Zilla/District Panchayat at the district level, intermediate/middle level Panchayat at the Taluk/block level and Village/Gram Panchayat at the village level. This hierarchical kind of structure doesn't exist at the ULBs level.

## **DIVISION OF FUNCTIONS**

In a federal system functions are divided across different levels of government i.e. Central/national, states/provinces and local governments. The economic rationale for decentralization is based upon the limited geographic extent of the benefits of public goods and the relatively high costs of decision making if everything is centralized. The Tiebout - Musgrave layer cake model of the public sector maintains that stabilization and distribution functions of the public sector should be discharged by the Central Government and that state and local governments should engage in allocation activities (Tiebout, 1956; Musgrave, 1959). A fair degree of financial autonomy (in the true spirit of decentralization of power) is a sine qua non for local governments to function more effectively as self-governing institutions; by financial autonomy we mean that they should have their own taxation and borrowing powers as well as a share in the state's taxes and duties and grants-in-aid from higher levels of government. The local governments should not only have the power to raise revenues but the own source of revenues should constitute a very significant share in the total revenues (Bahl, 1999). Further, the opinion is that the extent to which the local governments are self-financing indicates their fiscal autonomy, because outside financing may come with conditions that limit local discretion in the use of funds (World Bank, 1988: 155). Further, grants should not be too large a share of local expenditure because, when revenues get tight, higher level governments tend to cut off transfers to local governments. This discourages local governments from raising their own revenues. Local grants also should be flexible, transparent and predictable. In this regard Richard M Bird and Michael Smart (2002: 899-912) are of the view that "if services are to be efficiently provided, transfers must be designed so that those receiving them have a clear mandate, adequate resources, sufficient flexibility to make decisions and are accountable for results". The revenues available from own sources and those devolved should match the

functions and responsibilities entrusted. In the absence of these, the local governments would become mere spending agencies, always dependent upon the higher level governments for the transfer of grants. Thus, the responsibility of making local governments fiscally autonomous and stronger lies with the higher level governments. The Constitution or by convention of a country, in general, specifies the tax sources, borrowing powers etc. of different levels of government.

Further, it also specifies the model/agency to deal with the determination of revenues of different levels of the government.

In India, Article 280 of the Constitution empowers the President to constitute a Finance Commission (FC) at the central level once in five years. The FC is to make recommendations on the distribution between the Union and the states of the net proceeds of taxes, allocation between the states, the principles which should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India etc. Similarly, Article 243(I) of 73rd Amendment Act provides for constitution of a FC by the states once in five years to look into the resources of both state and local governments.

### **Legislative Provisions**

The Central and the state governments have provided for statutory fiscal powers and transfers considering the importance of adequate resources for the effective functioning of PRIs. The provisions relating to these have been given below.

### **Central Level Provisions**

At the Central level, Articles 243(H) and 243(I) of the 73rd Constitutional Amendment Act (CAA) specifies broad directions on the type and method of bestowing fiscal powers on the PRIs. Article 243(H) states that the legislature of a state may, by law:

1. authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
2. 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;
3. provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the state; and
4. provide for the 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 there from, as may be specified in the law.

Article 243(I) provides for the appointment of a 'Finance Commission' by the states once in five years. The broad responsibilities of the State Finance Commission (SFC) are to:

- A. distribute the state's resources between the state and the local bodies;
- b. assign any of the state's taxes, duties and fees to these bodies; and
- c. recommends grants-in-aid for the purpose of providing services.

Besides, Articles 280(bb) and 280(c) of the Constitution place additional responsibility on the Central Finance Commission (CFC) to look into the resources of the local bodies. The former

Article relates to PRIs and the latter to ULBs. As per Article 280(bb), the CFC has to recommend measures needed to augment the Consolidated Fund of a state to supplement the resources of the Panchayats in the state on the basis of the recommendations made by the Finance Commission of the state.

### **State Level Provisions**

With regard to financial powers of the PRIs, the states in their Panchayat Raj (PR) Acts have made various provisions. Broadly, the states have accorded taxation powers to the gram/village Panchayats. One can see the long list of tax sources vested with them (Bohra, 1996; Rajaraman, 2003; Dwaraknath, 2008; Rajasekharan, 2008). The Ministry of Panchayat Raj (MoPR), Government of India, has listed 24 taxes and duties entrusted to village/gram Panchayats by various states (MoPR, 2004). The most important among these are property/building tax, vacant land (other than agriculture land) tax, “kolagaram” (tax on the village produce sold in the village by weight, measurement or number) mainly in Andhra Pradesh, tax on advertisements and hoardings, profession and entertainment tax, factory tax and various cesses. In a few states, powers have been given to intermediate and district level Panchayats to raise revenues and these are mainly in the nature of assigned revenues such as mineral cess, land/local cess, surcharge on stamp duty, entertainment tax etc. (Rao and Reddy, 1996; Aziz et. al, 2002). Yet, in a few other states, certain taxes such as motor vehicle tax, entertainment tax, profession tax and stamp duty are shared with different tiers of PRIs. Further, the Panchayats are empowered to raise non-tax revenues from their own properties and assets such as rent from shops and buildings, auction of trees and fruits, sale of assets, fee on pilgrims and fairs, grazing lands and shandies (markets) and license fee etc. (Rajaraman, 2003). Apart from these, provisions for statutory and discretionary transfers and borrowings have been provided. Another important provision made in almost all the state PR Acts is constitution of a Finance Commission by the states once in five years in conformity with Article 243(I) of the Constitution. The above legislative measures both at the Central and state levels, contemplate bestowing a variety of revenue sources to PRIs: own revenue raising powers, assignments, tax sharing, grants-in-aid and borrowing powers.

### **Fiscal Position of Three Levels of Government in India**

The Constitution of India has demarcated the responsibilities/functions of the Centre and states in three distinct lists under the Seventh Schedule (Government of India, 2005). Similarly, the Eleventh Schedule under Article 243(G) of 73rd Amendment specifies 29 broad subjects to be transferred to PRIs by the states (Government of India, no date). As far as the latter is concerned, not all the states have implemented this in letter and spirit. However, the states, by and large, have entrusted the PRIs with the responsibility of providing essential services such as provision and management of drinking water schemes, streetlights, drainage and sanitation, roads, maintenance of community assets and implementation of some rural development and poverty alleviation programmes. It is interesting to note that 13 out of 18 major states have transferred more than 15 subjects mentioned under the Eleventh Schedule to PRIs. Out of the 13 states, six states namely Assam, Karnataka, Chhattisgarh, Rajasthan, Tamil

Nadu and West Bengal have transferred all the 29 subjects. It may be noted here that the tasks involved at the grassroots level are gigantic. This requires adequate resources and functionaries. However, with regard to these two, the states have not shown the same zeal as they did while devolving the functions. A few exceptions are Karnataka, Kerala, Maharashtra, Rajasthan, Gujarat and West Bengal.

A related issue at the macro level is the extent of revenues available to each level of government in the combined revenues. Table 2 provides the information on the relative position of PRIs, states and the Centre in the resource availability. It can be seen from the table that the share of tax revenue of PRIs in the combined tax revenues was 0.17 per cent during 1997-98 and it increased to 0.26 in 2002-03. On the other hand, the shares of state governments and the Central government in those years were 55.88 and 45.95 per cent respectively in both the years. Again, if we look at the shares of each level of government in the total resources, i.e., revenue and capital receipts together of all the governments the situation is no different from the earlier scenario. It can be seen that the share of PRIs in the combined receipts during 1997-98 was 4% cent and the same declined to 3% in 2002-03. Against this pattern, the shares of states and the Centre was around 48 % in both the above periods. A study of revenues of local bodies (rural and urban) in India also brings out the same situation as it reveals that during 1997-98 the share of local bodies in the gross state domestic product (GSDP) was 2.1 % in contrast to Centre's 6.8 % and States' 10.9 % (Rao, 2000). In contrast, in certain countries the share of local governments in the total tax revenue ranges between 11 and 20 per cent (Bohra, 2008: 27). These facts clearly show that very little fiscal decentralization has taken place below the state level in India.

## **CONCLUSION**

The preceding analysis of the resources of PRIs in India brings out many interesting points. Since the passing of 73rd Amendment, the governments are yet to evolve an acceptable fiscal decentralization. It seems that in some of the state's history was repeating. No lesson was learnt from the failure of PRIs in the earlier attempts. The states strongly protesting (during 1970s and 1980s) against the Centre's dominance over the resources and making inroads into the states' subjects, have now forgotten this in state - PRIs relation. The Centre's dominance over the resources is revealed from a large body of literature on the subject, discussions in the National Development Council meetings and constitution of Sarkaria Commission (Government of India, 1988). There was no proper implementation of the legislative measures incorporated in the Constitution as well as in the state PR Acts relating to finances of the PRIs. Many of the provisions, specially the fiscal provisions, are not mandatory and this has become handy for most of the states to have bigger say in PRIs resources.

## **REFERENCES**

1. Aziz, Abdul, N Sivanna, M Devendra Babu, Madhushree Sekher and C Charles Nelson (2002). *Decentralised Governance and Planning: A Comparative Study in Three South Indian States*. New Delhi: Macmillan

2. Alok, V N (2008). 'Devolution of Resources to Local Governments: Role of the XIII Finance Commission'. In Conference on Issues Before the 13th Finance Commission: Empowering the Panchayati Raj Institutions, organized by Institute of Rural Management, Anand, December 22-23, 2008
3. Babu, M Devendra (2002a). Eleventh Finance Commission's Recommendations and the Local Bodies: Impact across the States. Management in Government, Vol. XXXIV, No. 2.
4. Bahl, Roy (1999). 'Implementation Rules for Fiscal Decentralization'. Paper presented at the International Seminar on Land Policy and Economic Development, organized by Land Reform Training Institute, Taiwan, November 17, 1998.
5. Mahapatra Richard with others, (August 31, 2002) The Second Independence, Down to Earth
6. Singh, S.K., (1997), Self-governance for the Scheduled Areas, Journal of Rural Development, Vol. 16, No.4.
7. Reddy G. Sreenivas and M Vidyasagar Reddy (1996), Panchayati Raj in Andhra Pradesh: Pre and Post 73rd. Constitution Amendment Position, Dynamics of Public Administration, Vol. 1, No. 1
8. The Hindu, dated August 19, 2003
9. Mathew George, Panchayati Raj: From Legislation to Movement, (1997) Concept Publishing Company, New Delhi
10. Mukarji, Nirmal, The Third Stratum, (1 May, 1993) Economic and Political Weekly.
11. Mishra, S.N., Kumar, Lokesh and Pal, Chaitali, (1996) "New Panchayati Raj in Action", Mittal Publications, New Delhi
12. John, Oommen, (1998) "Panchayati Raj at Work in Kerala: An Analysis", Kurukshetra, Vol. 47, No.1, October.
13. India Today, March 13, 2006.
14. Mathew, George, (ed), 2000, "Status of Panchayati Raj in the States and Union Territories of India", New Delhi, Concept Publishing Company
15. Mishra, S.N., Mishra, Sweta, (2002) "Decentralised Governance," Shipra Publications, New Delhi,
16. Kashyap, Subhash, (2003), "Institutionalization of Grassroots Governance", Grassroots Governance, Vol. I, No. 1, June.
17. Aslam, M, 2004, "Towards Empowering Gram Sabha" in "The Grassroots Governance Volume II. No.2, December