BLOCK 3

PANCHAYATI RAJ INSTITUTIONS: FUNCTIONAL DOMAIN AND FINANCES

BLOCK 3 PANCHAYATI RAJ INSTITUTIONS: FUNCTIONAL DOMAIN AND FINANCES

Unit 6 Panchayati Raj Institutions

Unit 7 Resource Mobilisation and Management

UNIT 6 PANCHAYATI RAJ INSTITUTIONS*

Structure

6.0 Objectives

6.1 Introduction

6.2 The Constitution (Seventy-third Amendment) Act, 1992 : Functional Domain of the PRIs

6.3 Functional domain under the Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996

6.4 Functional domain of the PRIs: Critical Analysis

6.5 Strengthening the Panchayati Raj Institutions: Suggestions

6.6 Conclusion

6.7 Glossary

6.8 References

6.9 Answers to Check Your Progress Exercises

6.0 OBJECTIVES

After studying this Unit, you should be able to:

- Explain the functional domain of the Panchayati Raj Institutions;
- Analyse the role of Panchayats as an Institution of self-government; and
- Examine the status of District Planning Committees;
- Enumerate the necessary measures to strengthen the PRIs in India.

6.1 INTRODUCTION

Panchayats have been an integral part of rural India for centuries. Their shape and functions have been changing over a period of time. But they have been in existence, and have been a part and parcel of village life in one form or other. In this Unit, the functional domain envisaged for PRIs under the 73rd and 74th Constitutional Amendment Acts; and the Provision of the Panchayats (Extension to the Scheduled Areas) Act, 1996 popularly known as PESA will be discussed. Keeping in view the mandates of these Acts, the functional domains of the PRIs will be examined subsequently to know as to what extent the spirit of these legislations has been reflected in their functional domains? If the functional domains of the PRIs are not as envisaged, then what would be the future course of action in the form of the task ahead will also be addressed in this Unit.

* *Contributed by* Dr. Mahi Pal, Advisor, Sixth State Finance Commission, Government of Haryana, Former Director, Ministry of Rural Development, Government of India

6.2 THE CONSTITUTION (SEVENTY-THIRD AMENDMENT) ACT, 1992: FUNCTIONAL DOMAIN OF THE PRIs

Provisions, regarding functional domain of the PRIs under the Seventy-third Constitutional Amendment Act could be broadly categorised into mandatory and enabling provisions. Mandatory provisions are those provisions that are invariably be included in the State Panchayat Acts. Enabling provisions, on the other hand, are those provisions that are left to the State Legislatures to take a call on them.

Mandatory Provision: It includes the formation of Gram Sabha, the establishment of a three-tier system of Panchayati Raj (i.e. at village level, block level, and district level) in each State/UT except those States/UTs having population less than 20 lakhs, the composition of Panchayats by direct election from respective territorial constituencies, duration of Panchayats for five years, reservation of seats for SCs, STs and women, the constitution of the State Election Commission and State Finance Commission.

Enabling or Discretionary Provisions: These provisions include nomenclatures of the Panchayats at all levels; population and area of the Panchayats; powers and functions of the Gram Sabha; representation of Presidents of Gram Panchayat at the Intermediate Panchayat or Block Panchayat; representation of the Presidents of the Intermediate Panchayats at the district level Panchayat; representation of the MP, MLA, and MLCs at the block and district level Panchayats; election of the chairperson at the Gram Panchayat level; reservation of seats for Backward Classes; power, authority and responsibility of the Panchayats including preparation of plans for economic development and social justice including 29 subjects listed in the 11th Schedule of the Constitution; and levying of taxes, duties, tolls, fees, etc.

In the context of functional domains of the PRIs, Article 243 G of the Constitution needs to be examined which refers about powers, authority, and responsibilities of the Panchayats. It is read as “Subject to the provisions of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayat, at the appropriate level, subject to such conditions as may be specified therein, with respect to:

a) the preparation of plans for economic development and social justice;

b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule"(Article 243G of the Constitution of India).

   29 subjects, which are given in the 11th Schedule include (1) Agriculture, including agricultural extension, (2) Land improvement, implementation of land reforms, land consolidation and soil conservation, (3) Minor irrigation, water management and watershed development, (4) Animal husbandry, dairying and poultry, (5) Fisheries, (6) Social forestry and farm forestry,

(7) Minor forest produce, (8) Small scale industries, including food processing industries, (9) Khadi, village and cottage industries, (10) Rural housing, (11) Drinking water, (12) Fuel and fodder, (13) Roads, culverts, bridges, ferries, waterways and other means of communication, (14) Rural electrification, including distribution of electricity, (15) Non-conventional energy sources, (16) Poverty alleviation programme, (17) Education including primary and secondary schools, (18) Technical training and vocational education, (19) Adult and non-formal education, (20) Libraries, (21) Cultural activities, (22) Market and fairs, (23) Health and sanitation, including hospitals, primary health centers and dispensaries, (24) Family welfare, (25) Women and child development, (26) Social welfare, including welfare of the handicapped and mentally retarded, (27) Welfare of the weaker sections, and in particular, of the Scheduled Castes and Scheduled Tribes, (28) Public Distribution System, and (29) Maintenance of community assets. These subjects, may be categorised as a core function, welfare function, agriculture, and allied functions, and functions related to industries.

This Article of the Central Act is the head and heart of the entire scheme of defining the functional domain of the Panchayat. And for making Panchayats as an institution of self-government or third level of the government. In this regard, both Central and State Governments are responsible as admitted by the then Minister of Rural Development G. Venkatswamy, while introducing the Constitution (73^{rd} Amendment) Bill in the Parliament on December 1, 1992, as "this casts a duty on the centre as well as the states to establish and nourish the village panchayats so as to make them effective, self-governing institutions".

It may be inferred from above that the domain of Panchayats across the states or it is expected from the Panchayats that they would be (i) institutions of self-government; (ii) prepare plans for economic development and social justice, which means benefits of the development should go to the marginalised groups of rural society; and (iii) while preparing plans for economic development, they would also take into account 29 subjects listed in the 11^{th} Schedule.

Institution of Self-Government

Now the issue arises, how the Institution of Self-Government (ISG) is defined. Article 243G of the Constitution deals with powers and authority for the Panchayats. However, the Constitution instead of defining or describing them authorised the State Legislature to devolve on Panchayats with such powers and authority as may be necessary to enable them to function as ISG. Keeping above in view, the State law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate levels (i.e. Panchayats at village level, Panchayat Samiti or Intermediate at block level and Panchayats at district level). Panchayats should enjoy at least three types of autonomy at their levels. These are:

i) **Functional Autonomy:** It means that functions at a particular level of Panchayat (Village Panchayat or Panchayat Samiti or Zilla Panchayat) should be clearly defined, based on the subsidiary principle, which means what can be done effectively at a particular level should be devolved at that level only.

ii) **Financial Autonomy:** It focuses on having sufficient funds, which are required to complete various activities given to Panchayats under functional devolution as mentioned above.

iii) **Administrative autonomy:** It reflects that Panchayats have adequate personnel at their disposal to handle tasks assigned to them and work in a free environment within the proper legal frame work. Administrative autonomy may also be referred to as functionaries available at a particular level of Panchayats to perform the assigned task. These three types of autonomies are also called triple Fs, that is Functions, Finance, and Functionaries.

Article 243ZD and 243ZE of the Constitution for District Planning Committee and Metropolitan Planning Committee

Article 243ZD states, "There shall be constituted in every State at the district level, a District Planning Committee to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district as a whole". Similarly, according to Article 243ZE,"There shall be constituted in every Metropolitan area a Metropolitan Planning Committee to prepare a draft development plan for the Metropolitan area as a whole". There is no difference between these two provisions except that the latter relates to Metropolitan areas and the other to the rest.

These plans shall take into account the following:

a) The Plans prepared by the Gram Panchayat, Panchayat Samiti, Zilla Parishad and the Metropolitan authority.

b) Matters of common interest between Panchayats and Municipalities, including spatial planning.

c) Sharing of water and other physical and natural resources.

d) Integrated development of infrastructure.

e) Environmental conservation.

f) Extent and type of available resources, whether financial or otherwise.

The plan prepared after taking into account the above aspects shall be forwarded to the state government for its approval.

6.3 FUNCTIONAL DOMAIN UNDER THE PROVISIONS OF THE PANCHAYATS (EXTENSION TO THE SCHEDULED AREAS) ACT, 1996

Based on the recommendations of the Committee, chaired by Shri. Dileep Singh Bhuria the Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996 (PESA) was passed and it came into force on December 24, 1996, which was applicable to the Scheduled Areas only, which are identified by the Fifth Schedule of the Constitution of India. Under the Fifth Schedule, 10 states namely Andhra Pradesh, Himachal Pradesh, Rajasthan, Odisha, Jharkhand, Chhattisgarh, Gujarat, Maharashtra, Madhya Pradesh, and Telangana have been covered.

Salient Features of the PESA Act, 1996

Customary mode of dispute resolution: A State Legislation on Panchayats shall be in consonance with the customary law, social and religious practices, and traditional management practices of community resources. Every Gram Sabha shall be competent to safeguard and preserve the traditions and customs of the people, their cultural identity, community resources, and the customary mode of dispute resolution.

i) **Mandatory executive functions of the Gram Sabha:** (i) approves the plans, programmes, and projects for socio-economic development, (ii) identifies persons as beneficiaries under the poverty alleviation and other programmes, and (iii) issues a certificate of the utilisation of funds by that Panchayat for the plans, programmes, and projects.

ii) **Powers related Consultation with Gram Sabha or the Panchayats:** The Gram Sabha or Panchayats shall be consulted before; a) Making the acquisition of land in the Scheduled Areas, and for development projects and before re-settling or rehabilitating persons affected by such projects in the Scheduled Areas; the actual planning and implementation of the projects in the Scheduled Areas shall be coordinated at the State level; b) Planning and management of minor water bodies shall be entrusted to the Panchayats at the appropriate level; c) Gram Sabha or Panchayat's recommendation shall be mandatory prior to the grant of prospective licence or mining lease for minor minerals; d) Prior recommendation of the Gram Sabha or the Panchayat at appropriate level shall be made mandatory for grant of concession for the exploitation of minor minerals by auction.

iii) **Powers and Authority of the Gram Sabha and Panchayats:** The Panchayats at an appropriate level and the Gram Sabhas are endowed with powers: a) To enforce prohibition or to regulate or restrict the sale and consumption of any intoxicant; b) Ownership of minor forest produce; c) Prevent alienation of land and take appropriate action to restore any unlawfully alienated land of an ST; d) manage village markets by whatever name called; e) control over money lending to the STs; f) Control over institutions and functionaries in all social sectors; g) control over local plans and resources for such plans including tribal sub-plans.

iv) **Reservation:** The PESA provides that not less than one-half of the total number of seats would be reserved for tribals. Presidents of the Panchayats at all levels shall be from the STs. There is also provision for the nomination of a person of ST from such Tribe, which does not have any representation at the Block and District levels. But such nomination should not exceed one-tenth of the total member of the Panchayats. Share of different communities of tribal would be in accordance with their population.

v) **Application of Cardinal Principle in Devolution of Powers:** It is mentioned in the Act that State legislations that may endow Panchayats with powers and authority as may be necessary to enable them to function as institutions of self-government shall contain safeguards to ensure that

Panchayats at a higher level do not assume the powers and authority of any Panchayat at the lower level or of the Gram Sabha.

vi) **Pattern of the Sixth Schedule:** It is also expected that the State Legislature would take cognisance of the pattern of the Sixth Scheduled Areas (These areas fall in Assam, Meghalaya, Tripura, and Mizoram. It gives freedom to tribal folk to exercise legislative and executive powers through an autonomous regional council and autonomous district council) to the Constitution, while designing the administrative arrangement for Panchayats at the district level.

It may be seen from above that the PESA gives control of three J's, i.e., Jal (water), Jungal (forest), and Jamin (land) in the hands of the tribal people. The Gram Sabha is the pivot, around which all the provisions of the Act revolve.

The Legislative Assembly of the concerned State is expected as stated below, in order to put the spirit of the legislation into practice:

- Gram Sabha should be the cornerstone for all affairs of tribals ranging from protection of natural resources to maintenance of common assets.
- It is expected that Gram Sabha as a body of all voters of Gram Panchayat acts as Legislative Assembly, while the Gram Panchayat would act as its government at the village level.
- The approval of the Gram Sabha is necessary for all the activities carried out by the Panchayats relating to the rural economy and society of tribal.
- The spirit of PESA is on devolution of powers and authority rather than delegation of powers to the Gram Sabha, which represent participatory democracy rather than representative democracy within different tiers of the Panchayati Raj Institutions. The PESA has more people-friendly provisions than the 73rd Constitutional Amendment Act, in terms of application of the subsidiary principle of allocation of function and autonomous style of function on the line of Sixth scheduled Areas.

These would be examined while conformity legislation will be analysed.

Check Your Progress 1

Note: i) Use the space given below for your answer.

ii) Check your answer with those given at the end of the unit.

1) What is the functional domain of the PRIs under the 73rd Constitutional Amendment Act?

………………………………………………………………………………...……

………………………………………………………………………………...……

………………………………………………………………………………...……

2) Discuss the main features of the PESA and its uniqueness?

………………………………………………………………………………...……

………………………………………………………………………………...……

………………………………………………………………………………...……

6.4 FUNCTIONAL DOMAIN OF THE PRIs: CRITICAL ANALYSIS

The mandate of the Constitution has already been studied in the forging parts of the Unit, now let us examine whether the functional domain of PRIs has been clearly defined in the conformity legislation in the form of State Panchayat Acts or whether the basic thrust of the Constitution of making Panchayats as autonomous institutions have been reflected in the State Panchayat Acts by the State Legislature of the states or not. In fact, none of the states has brought out the Panchayat Act, which reflects features of the Central Act particularly on the issue of awarding functional, financial, and administrative autonomy to the PRIs. It happened due to not carrying out activity mapping of the 29 subjects listed in the 11th Schedule of the Constitution. In fact, these are the 'subjects' in the Schedule and not activities or sub-activities. The state governments should have broken down the subjects listed in the 11th Schedule into activity and sub-activity and then devolved or transferred them at the village, block, and district levels keeping in view the subsidiary principle of work allocation. For example, education, including primary and secondary education has been devolved to the Panchayats. But such devolution is blurred and not understandable because it is not clear, which aspect of education was devolved at what level of Panchayat. Is it the construction of buildings? Is it the recruitment of teachers or their hiring? Is it purchasing stationery and books or other accessories? Besides, it is not clear what activity or sub-activity of education subjects would be performed by the State Government, and what would be performed by the Panchayats.

i) **Inter-Panchayat Distribution of Functions**

Among the three levels of the Panchayati Raj Institutions, which level of the Panchayat (Gram Panchayat or Panchayat Samiti or Zilla Parishad) would be addressing what function of education is also not clear.

Further for a well-defined functional domain of the PRIs, activity mapping is also required at the central level because various programmes and schemes are related to the central sector and centrally sponsored schemes, where funds for the panchayats are earmarked, are being implemented at this level. In such programmes and schemes, activity mapping is also a necessary exercise to be carried out by the concerned Ministry. The Working Group on Decentralised Planning also viewed functional devolution in vague terms. Items listed are like a shopping list of sectors and sub-sectors, without role clarity (Working Group on Decentralised Planning 2001: p.13). Table 6.1 depicts a broad analysis of objectives of the conformity legislations and devolution of powers and authority to the PRIs.

Table 6.1: State-wise Broad Analysis of Objectives of the State Panchayat Acts, Devolution of powers and authority and Other Provisions

Sl. No	Aspect	State-wise broad analysis
1.	Objectives of the Panchayat Acts	• In the States of Bihar, West Bengal, and Tripura, the main objective of the State Panchayat Acts is to transfer such powers and functions to Panchayats so as to enable

		them to function as local self–government at their levels. • Tamil Nadu, Kerala, Sikkim, Uttar Pradesh, and Maharashtra Panchayat Acts also made some commitment to making Panchayats autonomous. • In Haryana, Panchayats are meant for better administration of rural areas. Even Panchayat Samitis (Block level) would be agents of the State government for formulation and execution of programmes financed by the State Government. • Madhya Pradesh is not far behind Haryana where Janpad Panchayats (block-level) are the agents of the State government. • Several states like Punjab, Karnataka, Goa, Arunachal Pradesh, and Manipur have also not made any provisions in their preambles for making Panchayats autonomous institutions.
2.	Functional Autonomy	• As mentioned earlier, there were certain principles, which were required to be honoured for the allocation of functions among and between different levels of the Panchayats. But these principles have not been kept in view while transferring powers to the Panchayats. Except for a few states like Karnataka, Gujarat, Maharashtra, and West Bengal, proper mapping of functions has not been done in the Panchayat Acts. • Secondly, the state governments have retained the powers to assign, amend or withhold functions given to the Panchayats. It means full autonomy has not been awarded to the Panchayats. • Thirdly, reluctance in framing rules and by-laws by the bureaucracy also delayed the devolution process from the State to Panchayat, and among different levels of the Panchayats.
3.	Financial Autonomy	• Functional autonomy is meaningless without financial backing at the Panchayat level. • It is a common feature of the Panchayat Acts that before mentioning the functions to be performed by the Panchayats, certain qualifying clauses such as "*within the limit of its funds*" in Andhra Pradesh, Haryana, and Tamil Nadu, "*to the extent, its funds allow to perform*" in Punjab, "*as far as the gram panchayats funds at its disposal*" in Himachal Pradesh and Madhya Pradesh are used. • However, in Karnataka, there is a provision of untied

		grants at the Gram Panchayat level. In the case of Gujarat, if Gram Panchayat's income does not commensurate with its functions, the Taluk Panchayat shall take necessary steps in this regard.
4.	Administrative Autonomy	• Administrative Autonomy denotes that not only do the Panchayats have their own personnel with the power of hire and fire but also work in a free environment within the proper legal framework. • Only a few states like Gujarat, West Bengal, Kerala have administrative autonomy. • There are provisions in the State Panchayat Acts with regard to suspension of elected bodies and supersession of their resolutions. These provisions are rampant in the State Panchayat Acts. In most of the states, the executive officers, planning officers of different levels of Panchayats are appointed and controlled by the State Government. However, in some states like Gujarat and Rajasthan, there is provision for Panchayat cadre, which are good steps towards rural self–governance. • The State Panchayat Acts were also armed to empower the State governments to act as chief superintending and controlling authority in respect of matters related to Panchayats, for example, Rajasthan Panchayat Act. • In some states like Gujarat and West Bengal, Supervision and controlling of Panchayats by the State Government in the name of public interest is also given in the Panchayat Acts.

Source*: Mahi Pal, 2020.*

ii) **Functional Domain on the basis of the Devolution Report for the year 2015-16**

Now, an analysis of functional domains in the form of devolution of triple Fs and other associated indicators has been carried out by the latest available Devolution Report for the year 2015-16. It broadly covers the actual progress of devolution of triple Fs to the PRIs with respect to subjects indicated in the Eleventh Schedule of the Constitution. The sample of the study covers 31 District Panchayats, 46 Panchayat Samitis and 63 Gram Panchayats spread over 26 States and 6 Union Territories of the country. The devolution index used in the report not only takes into account the triple Fs and Infrastructure, governance, and transparency by the States/UTs but also examines how these decisions have actually been put into practice on the basis of field study of select Panchayats. Following are the conclusions that emerged from the study with respect to devolution to Panchayats:

a) None of the State or UT had achieved 100 per cent or complete devolution even after more than two and half decades of the enactment of the 73^{rd} amendment to the Constitution. It shows no or very little concern of political leaders and bureaucrats for the empowerment of these institutions to enable them to function as institutions of Self- Government in a real sense.

b) Only one state (Kerala) has achieved three fourth of intended devolution.

c) Kerala, Karnataka, Maharashtra, Tamil Nadu, Telangana, Sikkim, and West Bengal have achieved 50 per cent and above devolution.

d) It is also found that in most of the cases policy decisions taken by the states have not been put into practice at the grassroots level.

e) Arunachal Pradesh is at the bottom followed by Goa, Manipur, Punjab, and Jammu and Kashmir.

The three-dimensional study of devolution of powers, authority, and responsibilities from the State Governments/UTs to Panchayats revealed that except southern states strengthening the functional domain of Panchayats has not been a priority of the State Governments.

iii) **Functional Domain of the PRIs in concerned States fall under the PESA**

Gram Sabha is the backbone of the PESA. Let us see, how it is empowered to make decisions with regard to (i) conflict resolution; (ii) selection of beneficiaries under various programmes; and (iii) utilisation certificate in all the states with the provisions in the Acts of concerning States.

a) Powers of the GS have been clipped under section 5(6) of the Odisha Gram Panchayat Act, which states, “consistent with the relevant laws in force and in harmony with basic tenets of the constitution”.

b) In the States of Madhya Pradesh, Chhattisgarh, and Jharkhand power of identification of beneficiaries was given to the GS but subject to rules or orders issued by the State Governments.

c) Consultation with the GS or Panchayats before land acquisition and resettlement & rehabilitation, planning, and management of water bodies by the Gram Panchayats; and recommendation by the GS or Panchayats before a grant of prospecting license or mining lease has been implemented in all the states except Jharkhand.

d) Recommendation by the GS or Panchayats before exploitation of minor minerals has been implemented in all states except Jharkhand. The GS and Panchayats have been empowered to restrict the sale of intoxication in all the states except Gujarat, Jharkhand, and Madhya Pradesh.

e) Ownership of minor forest produces vested with the Gram Sabha in all the states except Chhattisgarh, Jharkhand, and Madhya Pradesh.

f) GS and Panchayats have been given the power to prevent land alienation in all states except Jharkhand, Madhya Pradesh, and Maharashtra.

g) Money lending is also under the control of the GS and Panchayats in all states except Chhattisgarh, Jharkhand, and Madhya Pradesh.

h) On Control of the social sector institutions and functionaries is in the hands of GS and Panchayats in all states (Annual Report 2015-16, MoPR, p.16 & Devolution Report 2015-16, p.90)

The Government of India has appointed various committees on the inter-sectoral issue, and minor forest produce; and Sub-Committee on 'Land Alienation, Displacement, Rehabilitation, and Resettlement, etc., from time to time to strengthen the hands of tribal people in managing their social, and cultural and economic system by removing exploitative elements from tribal governance system through the institutions of Gram Sabha. But unfortunately, more than two decades have elapsed since the implementation of the PESA, still, rules have not been framed and operationalised in the concerned states. Awareness generation among people and officials is still being suggested by some of the Committees. It shows the apathy of governments and training institutions towards the capacity building of different stakeholders.

Status of District Planning Committees

The Devolution Report 2015-16 of the Ministry of Panchayati Raj has provided details of the status of both functioning and non-functioning of the DPCs and preparation of integrated district plans in the states. According to it, out of total states, 23 states and UTs have reported about the functioning of these Committees, and the rest reported not functioning of these Committees. The States/UTs, where it is not functioning are Chandigarh, Dadar and Nagar Haveli, Goa, Jammu & Kashmir, Kerala, Lakshadweep, Madhya Pradesh, Manipur, Puducherry. In this regard, Table 6.2 presents the status of the DPCs across the country.

Table.6.2: Status of the District Planning Committees' Functionality, 2015 by Federal Unit

Sl. No	Name of Federal Unit	Status of Functionality
1	Andaman and Nicobar Islands	Functional
2	Andhra Pradesh	Functional
3	Arunachal Pradesh	Functional
4	Assam	Functional
5	Bihar	Functional
6	Chandigarh	Not Functional
7	Chhatisgarh	Functional
8	Dadra and Nagar Haveli	Not Functional
9	Daman and Diu	Functional
10	Goa	Not Functional
11	Gujarat	Functional
12	Haryana	Functional
13	Himachal Pradesh	Functional
14	Jammu and Kashmir	Functional
15	Jharkhand	Functional
16	Karnataka	Functional
17	Kerala	Not Functional

18	Lakshadweep	Not Functional
19	Madhya Pradesh	Not Functional
20	Maharashtra	Functional
21	Manipur	Not Functional
22	Odisha	Functional
23	Puducherry	Not Functional
24	Punjab	Functional
25	Rajasthan	Functional
26	Sikkim	Functional
27	Tamil Nadu	Functional
28	Telagana	Functional
29	Tripura	Functional
30	Uttar Pradesh	Functional
31	Uttarakhand	Functional
32	West Bengal	Functional

Possible Reasons for not implementing functional domains of the Panchayats given in the Central Act

a) If decisions were taken for devolution, they have not been implemented in the field due to lack of awareness among elected representatives, and lack of interest among district and sub-district officials for strengthening the Panchayats.

b) The officials working with the Panchayats and Line Departments (like education, health, etc.) did not like to empower Panchayats functionally, financially, and administratively. Hence, it would be better for them to keep Panchayats' personnel ignorant about their powers and authorities.

The reason for comparatively more devolution on Panchayats in southern states and West Bengal might be active civil society and the role of various civil society organisations in spreading information among Panchayats' personnel and building their capacity by imparting training.

6.5 STRENGTHENING THE PANCHAYATI RAJ INSTITUTIONS: SUGGESTIONS

The following suggestions may be useful to further strengthen the PRIs in the country:

i) Functions of the PRIs should be clearly defined, keeping in view the cardinal principle of work allocation. It means the function, which is effectively performed at a particular level should be devolved at that level only. Only after proper delineation of functions, requirement of funds and functionaries should be carried out. Here, carrying out activity mapping is necessary. Almost three decades have elapsed since the 73rd Constitutional Amendment Act came into operation, but still, requisite powers have not been given to them.

ii) Not imparting proper training to all elected representatives is really a tragedy. It is found at the local level that personnel are not fully aware of their role and responsibilities. Hence, it is necessary to focus on it so that elected representatives conduct meetings and shoulder other responsibilities properly. In this regard, capacity-building training may be imparted in action mode to focus on practical aspects of different activities, which would be performed by the PRIs from time to time.

iii) The State Finance Commission should be constituted within a stipulated time limit; and Action Taken Report of the recommendations of the Commission should be done on a priority basis.

Check Your Progress 2

Note: i) Use the space given below for your answer.

ii) Check your answer with those given at the end of the unit.

1) Explain the functional domain of the PRIs as per conformity legislation and according to the Devolution Report of 2015-16.

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

2) Suggest necessary measures for strengthening the PRIs in rural India.

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

6.6 CONCLUSION

It has emerged from the above discussion that the functional domain of PRIs under the 73rd Amendment to the Constitution could not be put into practice in terms of strengthening these institutions in the form of triple Fs. But no doubt, it has certainly provided certainty, continuity, and space for vulnerable groups and women in these institutions at the village, block, and district levels. The experiences of functioning of these institutions revealed that to a large extent these institutions are agencies of the state and central governments for the implementation of State-Sponsored Schemes and Centrally Sponsored Schemes. The PRIs are expected to prepare plans for economic development and social justice including 29 subjects listed in the 11th Schedule of the Constitution. But with the exception of Kerala, these institutions rarely addressed these functions at their levels. The entire provisions of the PESA have also not been operationalised at the grassroots level. Similarly, an integrated plan at the district level to be prepared by the DPC also remains a dream even after almost three decades of implementation of the 73rd and 74thAmendment Acts. It can be stated that the Panchayats emerged as the government at district and sub-district levels, they should be empowered with triple Fs for socio-economic development and justice in the rural areas, especially for the marginalised section of society.

6.7 GLOSSARY

Eleventh Schedule: Eleventh Schedule consists of a list of 29 subjects added in the Constitution as per the 73rd Amendment to the Constitution.

Institution of Self-Government: Panchayats may be designated as institutions of self-government, if these bodies at the village, block, and district levels have at least three types of autonomy at their levels. These are (i) properly defined and adequately devolved functions, (ii) adequate funds to meet the needs of devolved functions, and (iii) adequate number of personnel to carry out devolved responsibilities.

Panchayati Raj Institutions: Panchayati Raj Institutions (PRIs) are the third–tier (level) of the government. The three-tier PRIs are known as Gram Panchayat/Village Panchayat at the village level, Panchayat Samiti/ /Block Panchayat/Kshetra Panchayat/ Janpad Panchayat/ Panchyat Union at the Block level (it is also called as ‘intermediate level’), and Zilla Parishad/ District Panchayat at the district level. There are 253268 GPs, 6614 Intermediate Panchayats, and 630 District Panchayats at the district level across the country. In these institutions as many as 31 lakh elected representatives are working in different capacities and among them 13.75 lakh are women (Basic Statistics of PRIs, MoPR, 2019).

6.8 REFERENCES

Government of India. (2006). The State of Panchayats – A Mid-term Review and Appraisal. New Delhi, India: Ministry of Panchayati Raj.

Jathar, R.V. (1964). *Evolution of Panchayati Raj in India*. Dharwar, India: Institute of Economic Research.

Mahi Pal (2004): Panchayati Raj and Rural Governance: Experiences of a Decade. *Economic and Political Weekly*. 39(2), 137-143.

Mahi Pal. (1997). Panchayati Raj in India: Issues and Challenges. *Kurukshetra*. 72-79.

Mahi Pal. (2018). *Panchayati Raj in India*. New Delhi, India: Publication Division.

Mahi Pal. (2020). *Rural Local Governance and Development*. New Delhi, India: Sage.

Ministry of Panchayati Raj & Institute of Rural Management Anand. (2009). *State of Panchayats Report 2008-09: An Independent Assessment*. New Delhi & Anand, India.

Ministry of Panchayati Raj. (2016). Devolution Report 2015-16: Where Local Democracy and Devolution in India is heading towards? Retrieved from https://panchayat.gov.in/documents/20126/0/devolution2015-16.pdf/d5e26984-5783-3a14-e7f7-6113a6cfa7c4?t=1554884884392

Planning Commission. (2001). Report of the Task Force on Devolution of Powers & Functions upon Panchayati Raj Institutions (PRIs). Retrieved fromhttps://casi.sas.upenn.edu/sites/default/files/iit/Report%20of%20Task%20Force%20on%20PRIs.pdf

The Constitution (Seventy-fourth Amendment) Act, 1992. Retrieved from https://www.india.gov.in/my-government/constitution-india/amendments/constitution-india-seventy-fourth-amendment-act-1992

The Constitution (Seventy-third Amendment) Act, 1992. Retrieved from https://www.india.gov.in/my-government/constitution-india/amendments/constitution-india-seventy-third-amendment-act-1992

The Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996. Retrieved from https://www.indiacode.nic.in/bitstream/123456789/1973/1/A 1996-40.pdf.

6.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points:

   - For your answer, refer to Section 6.2 and Article 243G along with the 11th Schedule of the Amendment containing 29 subjects.

2) Your answer should include the following points:
   - For your answer, refer to Section 6.3. It is unique because it put Jal (water), Jungal (forests), and Jamin (land) in the hands of tribals through the Gram Sabha.

Check Your Progress 2

1) Your answer should include the following points:
   - For your answer, refer to Section 6.4
2) Your answer should include the following points:
   - For your answer, refer to Section 6.5

UNIT 7 RESOURCE MOBILISATION AND MANAGEMENT*

Structure

7.0 Objectives
7.1 Introduction
7.2 Resource Mobilisation and Management: Constitutional Provisions
7.3 Rural Local Government: Resource Mobilisation
7.4 Rural Local Government: Potential Sources of Revenue
7.5 Management of Resources
7.6 Management of Resources: The Fifteenth Finance Commission
7.7 Conclusion
7.8 Glossary
7.9 References
7.10 Answers to Check Your Progress Exercises

7.0 OBJECTIVES

After studying this Unit, you should be able to:

- Discuss the constitutional provisions given in the 73rd Constitutional Amendment Act relating to resource mobilisation and management;
- Highlight the Tax and Non-tax sources of revenues of Rural Local Government;
- Enumerate the untapped sources of revenues of the Rural Local Government;
- Describe the management of mobilised resources; and
- Examine the provisions contained in the FFC about the management of resources.

7.1 INTRODUCTION

The 73rd Constitutional Amendment Act, 1992 has created the third tier of government in the Indian federal polity through the Panchayati Raj Institutions (PRIs). The institutional mechanism for effective governance at district, block and village levels has not only been added but has also been strengthened financially. The burning issues such as poverty, infant mortality, illiteracy, unemployment and poor infrastructure in rural areas could be solved only

* *Contributed by* Dr. Mahi Pal, Advisor, Sixth State Finance Commission, Government of Haryana, Former Director, Ministry of Rural Development, New Delhi

through effective functioning of the PRIs with adequate backing of finance. The Article 243G of the Constitution states that the Legislature of a State may endow the Panchayats with such powers and authority as may be necessary to enable them to function as institution of self-government. In this regard, law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level with respect to the preparation of plans for economic development and social justice, and the implementation of schemes. This is the mandate given by the Constitution to the states to empower the Panchayats functionally, financially and administratively so that they would be able to fulfil the aspirations and expectations of rural people. The PRIs cannot become effective institutions of local self-government unless they have a strong financial base with clearly defined sources of revenues, and the revenues are properly managed to optimise the resources through proper maintenance of accounts and audits at the local level. In this Unit, the terms like PRIs or Panchayats and rural local governments will be used interchangeably, as per requirement. The major focus will be on resource mobilisation and management to strengthen the PRIs for effective service delivery, and deepening the democracy at the grassroots level.

7.2 RESOURCE MOBILISATION AND MANAGEMENT: CONSTITUTIONAL PROVISIONS

There are three provisions for resource mobilisation and their management, given in the Act. Out of them two are related to resource mobilisation, and third is related to their management. These provisions are mentioned below to understand about the constitutional scheme for resource mobilisation and management.

i) **Article 243H: Power to Impose Taxes by, and Funds of, the Panchayats**

The Legislature of a State may, by law;

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

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

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

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

With regard to the above provisions, it may be stated that it is the Legislature of the State, which takes action in assigning taxes etc. to the Rural Local Governments (RLGs) besides, making recommendations for grants-in-aid to the Panchayats. In other words, it is an enabling provision for the State Legislature, and not mandatory in the sense to be implemented in letter and spirit.

ii) **Article 243I: Constitution of Finance Commission to Review Financial Position**

The Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act 1992, and thereafter at the expiration of every fifth year, constitutes a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor as to:

a) 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 that may be divided between them under this Part 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 that may be assigned to, or appropriated by the Panchayats; and
- The grants-in-aid to the Panchayats from the Consolidated Fund of that State.

b) The measures required to improve the financial position of the Panchayats.

c) Any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats in a particular State.

In addition to the above, as per Article 280 [(3) (bb)] of the Constitution, the Union Government also takes measures needed to enhance the Consolidated Fund of the State to supplement the resources of the Panchayats in the State on the basis of recommendations of the State Finance Commission.

Each and every State has to constitute a State Finance Commission (SFC) broadly for sharing taxes of states with Panchayats, assignment of taxes, fees etc. and providing grants-in-aid to these institutions. If desired, the Governor of the State may add any other terms of reference of the SFC for better financial empowerment of the Panchayats in the State.

iii) **Article 243J: Audit of Accounts of Panchayats**

The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats, and the auditing of such accounts. The above provisions of the Constitution, may be said as for the management of financial resources that are mobilised and shared from different levels, which will be discussed later on in this Unit. These provisions of the Constitution have been incorporated in the Panchayat Acts of the states.

7.3 RURAL LOCAL GOVERNMENT: RESOURCE MOBILISATION

There are various sources of revenues or source of income to Panchayats. These are resources from the Central Government, State Government, Central Finance Commission (CFC), State Finance Commission (SFC) and own resources of rural local government. These are mentioned here. Since the theme of the unit is on resources mobilisation, the entire focus is given on the own mobilised resources by PRIs through taxes and non- taxes measures in their respective areas. Further, in most of the states, the power of resource mobilisation through taxes and non-taxes measures are given at the Gram Panchayat (GP) level. Hence, the discussion is obviously centred around GP in this Unit.

i) **Resources from the Union Government**

The Union Government has been implementing various programmes for poverty alleviation, employment generation, providing access to basic needs like health, education and houses, construction of road and creation of requisite infrastructure like a community centre, etc in rural areas. Most of the programmes are being implemented by Panchayats at the village level, block level and district level. The programmes like Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA), Deendayal Antyodaya Yojana - National Rural Livelihood Mission, Pradhan Mantri Awaas Yojana - Gramin. Pradhan Mantri Gram Sadak Yojana, National Social Assistance Programmes come under this category. The share of Centre and States are different in different schemes. For example, under Pradhan Mantri Awaas Yojana – Gramin, the cost of the house is between the Central and the State governments in the ratio of 60:40 in the plain areas, and 90:10 for North-East and three Himalayan States namely Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

ii) **Union Finance Commission**

Every five years, the Finance Commission has been constituted among others to give grants to the Rural Local Bodies (RLBs). A large amount of funds are given to Panchayats by these Commissions. For example, the Fifteenth Finance Commission (FC-XV) has recommended a total of Rs. 2,36,805 crore for duly constituted RLBs in 28 States for the period 2021-2026 including for those areas, which are not required to have Panchayats (Fifth and Sixth Schedule areas and Excluded Areas largely the North Eastern states). Out of the total grant earmarked for PRIs, 60 per cent is earmarked as tied for national priorities like drinking water supply, rainwater harvesting and sanitation, while 40 per cent is untied at the discretion of the PRIs for improving basic services in villages pertaining to 29 subjects listed in the 11th schedule of the Constitution.

iii) **Union Government Assistance**

The Union Government, in addition to assisting the PRIs through Centrally Sponsored Schemes also gives assistance to them from time to time to meet their specific requirements.

iv) **State Government Assistance**

The PRIs also get assistance from the State Government under following two heads:

- State share in various Centrally Sponsored Schemes (CSS) of the Union Government, and

- State Governments also have their own Schemes, which have been implemented by the PRIs at the local level.

v) **State Finance Commissions**

As mentioned in the beginning, the State Finance Commissions are also constituted at the state level to recommend the transfer of funds to PRIs for five years. For instance, the 5th Finance Commission, Haryana had recommended seven per cent of State Own Tax Revenue to the PRIs and Urban Local Bodies (ULBs). Out of that 55 per cent was recommended to the PRIs and 45 per cent to the ULBs. Similarly, in different states, such constitutional arrangements are in existence for RLBs and ULBs.

vi) **Bank Loans**

PRIs can also take loans from the financial institutions for taking up income-generating activities or any activity, which is beneficial to villagers and there is no source of such funding. However, the PRIs have rarely used such provisions in practice. Generally, such types of provisions are given in the Panchayat Acts at the District Panchayat level.

vii) **Financial Assistance from Private Sector**

The development should be with social justice, and for that private sector also outreach to marginalised groups of rural areas. Hence with the cooperation of the PRIs, Corporate Sector can initiate various social and economic development programmes for villagers. Besides, with four Ps mode or Public-Private-Panchayat Partnership may also be another option for the Panchayats to mobilise resources. There are several socio-economic activities like education, health, and employment generation, which may be taken up by the Panchayat and Private Sector in a participatory mode at the local level.

viii) **Own Resources of Panchayats**

The above discussion from serial number i) to serial number vii) is related to other than own resources of the Panchayats. Since the title of the unit is Resource Mobilisation and Management, the focus has been on the Panchayats' own resources. In this part of the Unit, this aspect would be discussed in detail.

a) **Types of Own Resources**

There are two types of own resources of the Panchayats. These are:

- Resources mobilised through taxes, and
- Income is generated through non-tax measures like income from common property, ponds, fees, rates, asset monetisation, etc.

b) **Income from Taxes**

There are different types of taxes, fees etc., which have been included in the Panchayati Raj Acts. Broadly, these may be listed as below:

- Property tax

- Advertisement tax
- Entertainment tax
- Professorial tax
- Service Tax
- Land Tax (both, agricultural and non-agricultural land)
- House tax
- Water, drainage and sanitation tax
- Pilgrim tax
- Fair tax
- Specific tax for construction and public works
- Tax on pump
- Special tax and Community service.

The extent of mobilisation of their own sources by the Panchayats determines their level of autonomy in terms of doing activities that they want to take up, keeping in view the local priorities. If the Panchayats receive funds from the Central Government and State Government, then that fund would be utilised as per the guidelines of the Schemes/Programmes under which funds are earmarked. In other words, own funds are untide in nature, whereas grants received from other sources are tied ones. Two examples will be mentioned here to see the extent of own tax revenues as compared to the total resources of the Panchayats. First example is of Kerala, which is the leading State as far as rural local governance is concerned and belongs to the Southern part of India, and second is Haryana State where rural local governance is not so deepened which is from the Northern part of India.

Table 7.1: Total Revenue and Tax Revenue of the Gram Panchayats in Kerala (Rs. in Lakh)

Item	2009-10	2010-11	2011-12	2012-13	2013-14
Tax Revenue	19367.33 (6.18 %)	22038.28 (5.21 %)	26761.03 (4.37 %)	29357.43 (4.86 %)	32346.90 (5.28 %)
Total Revenue	313337.81 (100)	422515.07 (100)	476839.91 (100)	603831.51 (100)	612037.24 (100)

Source: *Compiled from the Report of the Fifth State Finance Commission, Kerala Part I, December 2015, p. 109.*

The data in table 7.1 depicts the extent of own tax revenue of the Gram Panchayats (GPs) to the total revenues of the GPs. However, total revenues include non-tax revenue of the GPs transferred from the State, Word Bank Assistance, a grant from the 13th Finance Commission, funds under CSSs, welfare pensions and other receipts.

It is evident from the table that the own tax revenues of the GPs is hovering at 5 per cent, which is very insignificant. Secondly, the share of this revenue is also going down as we compare with year 2013-14 (5.28%), which was 6.18 per cent is 2009-10. It implied that the share of tax revenue is not only very less but also going down.

This state of affairs is not a good sign for establishing self-governing Panchayats at their levels or establishing Gram Swaraj (own government) as envisaged by the Father of Nation.

Table 7.2: Total Revenue and Tax Revenue of the PRIs in Haryana (Rs. In Crore)

Item	2011-12	2012-13	2013-14	2014-15	2015-16
Tax Revenue	5.5 (0.70 %)	6.9 (0.70 %)	7.3 (0.60 %)	4.0 (0.30 %)	2.0 (0.20 %)
Total Revenue	835.70 (100)	1014.2 (100)	1131.2 (100)	1266.70 (100)	1237.1 (100)

Source: *Compiled from the Report of the Fifth State Finance Commission, Haryana, September 2017, p. 207*

In Haryana condition of own tax revenue, i.e. House Tax is pathetic as shown in table 7.2 from the year 2011-12 to 2015-16. Total revenue includes own non-tax revenue, grants from the Central Finance Commission, grants from the State Finance Commission, CSSs funds, State Budget Funds, etc. The share of tax revenue has not even reached one per cent of the total revenue of the PRIs in the State. It is interesting to note that share is not only very insignificant but also coming down year after year. For instance, the share of tax, which was 0.70 per cent in 2011-12 has come down to 0.20 per cent in 2015-16. Here also the autonomy of the PRIs is a big issue.

It may also be mentioned here that there are a number of taxes, fees etc., which are included in the Panchayat Act of the State but the Panchayats have not applied/used them to mobilise their financial resources. One of the main factors responsible for such conditions is that the Panchayat's leaders did not want to become unpopular in their areas by imposing tax. We will discuss it under the potential of taxes.

c) **Income from Non-tax sources of Revenues to Panchayats**

There are a number of sources of non-tax revenues to Panchayats listed out in the Panchayati Raj Acts of the states. For instance, these may be as follows:

- Income from property
- Income in the form of lease money from common land, used in agricultural activities by the lessee
- Rent from shops and other assets
- Income from ponds, etc.

- Interest from fixed deposits
- Teh Bazari
- Service Fees
- Registration fees on animals sold
- User Charges
- Fees
- Licence Fee
- Registration Fee
- Royalty from Minor Minerals
- Interest.

Let us now discuss the situation of non-tax revenues of the Panchayats in these two states as we discussed in the case of tax revenue.

Table 7.3: Total and Non-tax Revenue of the Gram Panchayats in Kerala

(Rs. in Lakhs)

Item	2009-10	2010-11	2011-12	2012-13	2013-14
Non-Tax Revenue	20942.99 (6.68 %)	26192.40 (6.20 %)	22602.01 (4.84 %)	24083.26 (3.99 %)	22058.58 (3.60 %)
Total Revenue	313337.81 (100)	422515.07 (100)	476839.91 (100)	603831.51 (100)	612037.24 (100)

Source: *Compiled from the Report of the Fifth State Finance Commission, Kerala Part I, December 2015, p. 109*

Table 7.3 depicts the status of non-tax revenue and total revenue of the GPs in the State of Kerala. What is included in the total revenue has already been discussed. It may be seen from the table that the share of non-tax revenue to total revenue of the GPs in the State is insignificant. Not only insignificant but the share has also been going down, which is evident from the fact that the share of non–tax revenue, which was 6.68 per cent in 2009-10 has come down to 3.60 per cent to total revenue of the GPs in 2013-14. Almost 50 per cent of non-tax revenue came down within five years.

Table 7.4: Total and Non-tax Revenue of the PRIs in Haryana

(Rs. in Crore)

Item	2011-12	2012-13	2013-14	2014-15	2015-16
Non-Tax Revenue	206.30 (24.70 %)	230.90 (22.80 %)	252.4 (22.30 %)	407.6 (32.20 %)	274.00 (22.10 %)
Total Revenue	835.70 (100)	1014.2 (100)	1131.2 (100)	1266.70 (100)	1237.1 (100)

Source: *Compiled from the Report of the Fifth State Finance Commission, Haryana, September 2017, p. 207*

Table 7.4 shows the size of non-tax revenue to the total size of the Panchayats' resources from 2011-12 to 2015-16. It may be seen from the table that in all the years the share of non-tax revenue to total revenue has been hovering around 20 per cent except the year 2014-15 where it rose to almost one-third of the total resources. It may be seen that except for the year 2014-15, share of this source of revenue is going down. The possible reason may be mismanagement of common resources, which are owned by the Panchayats.

The Indian Institute of Public Administration has conducted a study titled "Financial Matrix for Empowerment – Design of Inter-Governmental Fiscal Transfers in India to Rural Local Government in June 2019. It shows that at the national level, the status of own expenditure to the total expenditure of the Panchayats (from averages of 2012 to 2017-18) in states was Rs. 134329.80 crore and own resources of Panchayats were merely Rs.13769.20 crore. The revenue gap was Rs.12056.00. The share of own revenue of the Panchayats to total expenditure was 10.30 per cent at the national level. It implied that own resource mobilisation by the Panchayats is negligible. Hence, Panchayats may not be said as autonomous institutions at their levels with their own resources endownment.

7.4 RURAL LOCAL GOVERNMENT:POTENTIAL SOURCES OF REVENUE

Panchayats must use (both, tax and non-tax) provisions given in the Panchayati Raj Acts to mobilise their own resources for preparing and executing plans according to their choices. Even, to take up such activities, which the Panchayats have identified and prioritised as per their own funds because such funds are untied in nature. There are some additional sources of non-tax revenues, which could be exploited by the Panchayats to supplement their existing funds. Interestingly, in the case of the Haryana Panchayati Raj Act {section 41(1) c in case of GP, Section 88 in case of Panchayat Samiti (PS) and Section 147 in case of ZP} states, "subject to general direction and control of the government, a Zilla Parishad may, with the prior approval of the government, impose any tax which the Legislature of the State has the power to impose under the Constitution of India". But, this provision has not been put into practice by the GP or PS or ZP in the State. Such provisions are also in other states, but they are rarely put into practice. Some examples of the non–tax sources are mentioned below:

a) All common property resources of the Panchayats such as ponds, Panchayat land encroached by villagers required to be identified, listed and made productive use for income generation.

b) The GPs may develop local hats, shops etc. for rents. It can increase the income of the GPs and also promote marketing of agriculture produces and other local products like pickles, handicraft articles, etc.

c) Panchayat resources can be increased by imposing fees on tourist vehicles, by providing special amenities for tourists, advertising hoardings etc., wherever possible in their jurisdiction.

d) Garbage collected can be used for manure preparation, and can be marketed to generate additional income for the Panchayats.

There may be other sources of non-tax income to the Panchayats in different states. The main issue with regard to the mobilisation of resources has been the leadership qualities of the President of Panchayat to take action towards mobilisation of resources by taking all voters in confidence.

Check Your Progress 1

Note: i) Use the space given below for your answer.

ii) Check your answer with those given at the end of the unit.

1) What are the provisions for mobilisation and management of resources by the Panchayats in the 73rd Amendment to the Constitution?

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

2) What are the potential sources of revenue of the Rural Local Government?

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

……………………………………………………………………………...……

7.5 MANAGEMENT OF RESOURCES

Finance is the fuel, which is indispensable for the working of engine in the form of PRIs. Long ago, Kautilya had reminded us in these words "All undertakings depend upon financé. Hence, foremost attention shall be paid to the treasury". But, an equally important aspect of Panchayats' resources is proper management of the mobilised resources as per rules and regulations. Hence, the main concern here is how the mobilised resources of Panchayats are being used by these institutions for the benefit of villagers. Among others, whether the budget has been prepared as per rules and regulations, statement of income and expenditure has been maintained, accounts are maintained properly, and audits have been carried out as per rules and regulations. In this section, we will focus on these aspects, which are related to the management of resources.

i) **Balancing Income and Expenditure or Budget**

It is important for the Panchayats that they should have their income, while proposing or initiating socio-economic activities like construction of streets/roads, water supply, construction of Aanganwadi Centres, etc. For this purpose, the Panchayats should prepare their realistic budget and spend resources for various activities accordingly. The Panchayat needs to keep a balance between their income and expenditure. In this regard, following activities must be strictly observed by the Panchayats:

a) Expenditures must be as per the budget.

b) Planned activities should be completed within the estimated budget.

c) Expenditure on internal meetings in the form of food, tea, etc. should be as per the Panchayat rules.

d) Estimates for different works/activities should be prepared by the technical personnel like Junior Engineers so that quality work could be done by the Panchayats.

e) With the help of various committees/sub-committees/standing committees of the Panchayats, regular monitoring of the progress of various activities/works should be undertaken to ensure quality and to avoid overspending.

The meetings of the Panchayats should be held regularly and the budget of the Panchayats should be regularly discussed in such meetings. The sub-committees of the Panchayat dealing with plans and budgets should be more active in this regard.

ii) **Utilisation Certificates**

Panchayats in addition to their own resources, also have been receiving funds under various Centrally Sponsored Schemes and State-Sponsored Schemes for socio-economic development of rural areas. The Panchayats need to certify periodically that they have spent the amount as per the prescribed guidelines in a prescribed format. Such prescribed format is known as Utilisation Certificate (UC). The Presidents and Secretaries/ CEO of the RLBs are required to ensure that funds have been utilised as per the guidelines of the Schemes, and forward the UC to a higher level of Panchayats like GP to the Block level Panchayat and Block Level Panchayat to Zilla Panchayat level. If the UC are not prepared as per the prescribed formats given in the guidelines of the schemes, the Panchayats would not get second or third instalments of the funds under the scheme. This adversely affect the implementation work of the Panchayats because most of the funds of the Panchayats are from various Schemes. Hence, the UCs should be submitted by the Panchayats in time to the Schemes Sponsoring Agencies.

iii) **Accounting System**

We have discussed the importance of income and expenditure of the Panchayats. In other words, budget of the Panchayats, which can be maintained by keeping accounts in order. Accounts should be maintained as per accounts rules notified by states as per their Panchayat Acts.

For instance, rules for the GP accounting in West Bengal are provided in the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007. According to this the GP should deliberate accounting rules in its meeting and ensure that these are being followed in day to day activities of the Panchayat. If requires, the GP can also take the help of the Panchayat Audit and Accounts Officer (PA&AO), who is posted at the block office. The GP should do the following:

- Maintain the books of accounts on an accrual basis, following the double-entry system of book-keeping. In this regard under the double-entry accounting system, tracking funds received under various sources becomes easy. This is necessary for budgetary control.
- It is necessary for the President/Vice Presidents/members/ President of the Accounts and Audit Committee to fully understand the accounting practice by having regular interaction with the auditors or experts at the Block office or higher level.

iv) **Books of Accounts**

To enable the readers to understand the books of accounts procedure, the provisions contained in the Kerala Panchayat Raj (Accounts) Rules, 2011 are stated below.

a) **Cash Book**

- Cash Book keeps records of the transactions relating to cash receipts and cash disbursements of the GP. It is maintained by the Accountant.
- All amounts received in cash by the GP including cash withdrawn from the bank or treasury are entered on the debit side of the Cash Book. All payments in cash, including cash remittances into the bank/treasury, are recorded on the credit side of the Cash Book.
- The Cash Book is to be closed daily, the totals for the end of the day struck and the closing balance worked out with details to show unremitted and undisbursed cash, if any.
- The Secretary of the GP has to examine the entries and the closing balance in the Cash Book and put her/his signature. Cash in hand should be verified with the Cash Book balance at the end of each day, and recorded.

b) **Bank Book**

Bank Book is maintained by the Accountant and contains a record of all amounts deposited or withdrawn, in cash, cheque or other means from the bank/treasury accounts. The Bank Book is to be closed at the end of each day. The actual balance in the bank/treasury accounts must be maintained on a monthly basis and compared and reconciled with the Bank Book balance.

c) **Journal Book**

The Journal Book is maintained by the Accountant. All entries, which do not involve cash or bank/treasury accounts are to be recorded in the Journal Book, appropriately identifying the account heads to be debited and credited in respect of each transaction.

d) **General Ledger**

General Ledger is maintained by the Accountant, with separate folios for each head of the account. At the end of each day, the transactions recorded in the Cash Book, Bank Book and Journal Book are posted to the appropriate ledgers.

e) **Sub Ledger**

Sub Ledger may be maintained for an account in General Ledger identified as Control Account, for detailed information, such as of contractors, suppliers, etc. The Sub Ledger is maintained in the same form as General Ledger.

f) **Vouchers**

All Vouchers are prepared by or under the supervision of the Accountant and used as the covering sheet for all supporting documents, which form the basis of an authorisation of the transaction. Vouchers are numbered separately for each type and are distinctly coded for each Fund. The Voucher numbering begins afresh every year. A single Voucher can have multiple account heads but shall record transactions only in respect of one fund.

v) **Computerised Accounts: Use of e-Gram Swaraj**

In order to strengthen e-Governance in the PRIs, e-Gram Swaraj, a Simplified Work-Based Accounting Application for the Panchayati Raj was launched on April 24, 2020. The Application subsumes the e-FMS applications comprising of Plan Plus, Action Soft, PRIA Soft and National Asset Directory along with the Area Profiler Application with Local Government Directory forming the base for such a robust system along with the Public Financial Management System. This Application should be used by the Panchayats in the management of their accounts in a better way.

vi) **Bank Accounts**

The Panchayats need to open one or more bank accounts for keeping funds received under different schemes. According to the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007, the GP has to open savings bank accounts in the nearby nationalised or licensed Cooperative Bank, Grameen Bank or Post Office. Different Central and State schemes may have the requirement and related guidelines for opening separate bank accounts, which should be followed by the GP.

vii) **Financial Audit**

The purpose of a financial audit is to provide an objective and independent examination of the financial statements, and to assess that these are correct and as per rules. The financial audit examines whether the expenditure made by the Panchayat is authorised as per the applicable financial rules, programme guidelines, authenticated by supporting documents and is justified. Financial audit increases the value and credibility of the financial statements prepared by the GP. Financial auditing should be seen as a supporting system for improving the financial management system of the GP. Accounts of the GPs are audited by the Examiner of Account.

viii) **Statutory measures to be taken by the GPs**

As per West Bengal GP Administration Rules, 2006, audit rules for the GP are as follow:

An Audit Report is to be placed in the meeting of the Finance & Planning Standing Committee for a detailed discussion on the auditor's observations. The Committee makes a resolution to rectify the defects or irregularities and proposed remedial action as indicated in the audit report. The audit reports are also verified by the Block Development Officer (BDO) and Sub-Divisional Officer at their levels. The audit reports are to be rectified within the stipulated time.

ix) **Audit Para**

A 'pending audit para' is the observation made by the auditor for which the GP has not been able to provide a satisfactory reply. For this, the GP should take corrective actions as suggested by the auditor. In case of confusion, the GP may take suggestions of the Panchayat Audit and Accounts Officer (PA&AO) for correcting the error or write to the BDO for advice regarding the necessary action for corrections to be made in the books of account.

x) **Social Audit**

- Social audit is a process for ensuring the accountability of the Panchayats in which details of the financial and non-financial resources used by the Panchayats in the implementation of development projects or programmes, achieving objectives, progress are shared with the villagers.
- The villagers examine these details, verify, seek clarifications and convey their opinion to the Gram Panchayat with regard to suggestions for corrective actions and improvements.

The question arises, what is the need for social audit when there is already a Local Fund Audit of the GP accounts? In this regard, following reasons are considered:

- The financial audit examines just the authenticity of the financial transactions and is conducted by the financial auditor, whereas social audit examines the relevance, purpose and quality of outcomes and is conducted by the people for whom the programme is designed and expenses are made.
- In a social audit, along with the verification of papers and documents, people give their feedback on the quality of the work.
- A social audit provides useful feedback to the Panchayats, which can help to improve the quality of programme delivery.

Social Audit may be conducted by the Social Audit Committee constituted by the Gram Sabha, Besides, Women's Self Help Groups, Youth Groups, Community Based Organisations and Civil Society Organisations may also be involved in social audits for better outcomes.

7.6 MANAGEMENT OF RESOURCES: THE FIFTEENTH FINANCE COMMISSION

The Fifteenth Finance Commission (FFC) has critically examined the financial management system prevailing in the rural local government, and recommended certain reforms and put certain conditionality in the sphere of accounts and Audit. In this context, the FFC has recommended Rs. 236705 crore grants to the Panchayats for the period 2021-26. But at the same time, Commission suggested the adoption of an integrated financial management system in order to generate online accounts by each rural local body, enable online auditing of such accounts and their consolidation at the State and all India levels. The initiatives by the Ministry of Panchayati Raj for auditing and integration of Accounts are mentioned in Box 7.1

Box 7.1: Initiatives of MoPR for Auditing and Integration of Accounts

- For an Integrated Accounts Maintenance System, the MoPR constituted a technical committee on 12th February 2020 for harmonisation of heads of accounts comprising representatives of the CAG, CGA, National Informatics Centre and the National Institute of Rural Development and Panchayati Raj.
- On15th April 2020, the MoPR initiated a programme known as Audit-Online for facilitating the financial audit of accounts of the panchayats by auditors (either state Accountant General or local fund auditors). The application facilitates the auditing of accounts and maintaining audit records that have been carried out. A draft Audit Manual has also been prepared by the Ministry and shared with the states.
- A roadmap has been laid for the states to complete the exercise in a time-bound manner, specially closure of account-books for the year 2019-20 in PRIASoft; registration of auditors on Audit - Online; preparation of an audit plan; completion of the training of officials who are involved in audit; and completion of the entire exercise of online audit of the Panchayat accounts.

Source: *Report of the 15th Finance Commission, p. 192*

The Commission also put an entry-level condition for availing the Grants. In its own words "Since auditing is necessary to ascertain the transparency and accountability of public funds and this has remained an unfinished task so far, we recommend the online availability of both provisional accounts of the previous year and audited accounts of the year before previous as an entry-level condition to avail of the grants".

Since auditing is necessary to ascertain the transparency and accountability of public funds and this has remained an unfinished task so far, we recommend the online availability of both provisional accounts of the previous year, and audited accounts of the year before previous as an entry-level condition to avail of the grants. The eligibility criteria for rural local bodies to avail grants has been specified in Box 7.2

Box 7.2: Eligibility Criteria for Rural Local Bodies to Avail Grants in 2021-22 and 2022-23

In the first and second year of the award period (2021-22 and 2022-23), the State has to ensure that at least 25 per cent of the rural local bodies have both their provisional accounts for the previous year, and audited for the year before the previous year are available online in the public domain to avail the full grants in that year.

Hence, from the third year (2023-24) onwards, the states will get total grant, that is due to the rural local bodies, having both provisional accounts of the previous year and audited accounts for the year before previous and making them available online. For example, in case of a particular State only 35 per cent of the rural local bodies have both provisional accounts for the year 2022-23, and audited accounts for the year 2021-22 and these are available online in 2023-24, then in 2023-24, the State will get the total amount because of these 35 per cent of rural local bodies for the year 2023-24.

Source: *Report of the 15th Finance Commission, Government of India, 2019*

It is clear from above description that the management of resources is very important to enable the rural local government to conduct all its activities in a transparent and accountable manner. If audits and accounts as recommended by the Commission are not put into practice, there would be a tremendous loss of resources to the Panchayats. Hence, management of resources by the rural local government is not less important than the mobilisation of resources.

Such types of provisions are also included in the Panchayat Acts of different states. The issue is whether these rates have been imposed by the GPs, and if imposed then how much income they have collected from these sources. The Presidents of Panchayats (Sarpanches or Pradhans) are not interested to impose taxes and non-taxes provisions available in the Act as they do not want to be unpopular in their respective Panchayats. Conversely, if they mobilise resources by imposing taxes and non-taxes, and use the mobilised resources with the consent/participation of people, there would be positive response from villagers. Let the GPs take such initiatives, it is evident that results would be definitely positive.

Check Your Progress 2

Note: i) Use the space given below for your answer.

ii) Check your answer with those given at the end of the unit.

1) What are the major recommendations of the FFC in the management of resources through accounts and audits?

………………………………………………………………………………...……

………………………………………………………………………………...……

………………………………………………………………………………...……

………………………………………………………………………………...……

2) Explain the benefits of social audit in managing funds at the local level.

…………………………………………………………………………..……

…………………………………………………………………………..……

…………………………………………………………………………..……

7.7 CONCLUSION

The RLG should ensure that it gets its share of grants on time and utilise these grants fully to ensure that the people of the Panchayats receive maximum possible benefits from government schemes. In case some grant is not received, the matter should be taken up with the State Government.

As Panchayats are responsible for generating income along with its other functions such as planning, implementation of schemes and delivery of services. In order to become an institution of local self-government in the true sense, the Panchayat needs to enhance its own source revenue, and finance its own development initiatives. It is also responsible for managing its expenditure in a prudent manner. Hence, it is important that the GP generates significant income and spends it wisely in order to undertake more work for local development.

7.8 GLOSSARY

Social Audit: Social audit is a process for ensuring the accountability of the Panchayats in which details of the financial and non-financial resources used by the Panchayats in the implementation of development projects or programmes, achieving objectives, and progress are shared with the villagers. The villagers examine these details, verify, seek clarifications and convey their opinion to the Gram Panchayat with regard to suggestions for corrective actions and improvements.

Tied Funds and Untied Funds: Tied funds are those funds that are to be used by the PRIs as per instructions given in the guidelines of the schemes/programme. Untied funds are opposite to it as in these types of funds there is a freedom on the part of the Panchayats to use funds according to their priority/choices.

Utilisation Certificate: Panchayats in addition to their own resources also have been receiving funds under various Centrally Sponsored Schemes and State-Sponsored Schemes for the socio-economic development of rural areas. The Panchayat needs to certify periodically that they have spent the amount as per the prescribed guidelines in a prescribed format. Such prescribed format is known as Utilisation Certificate.

7.9 REFERENCES

Government of Haryana. (2017). *Report of the Fifth Finance Commission*. Retrieved from http://www.finhry.gov.in/Portals/0/5th%20SFC%20REPORT.pdf

Government of India. (2011). Roadmap for the Panchayati Raj (2011-17): An All India Perspective. Retrieved from https://www.panchayat.gov.in/documents/20126/0/Panchayati_Raj_Final_pdf_02-5-11.pdf/8aa0a6bd-bdfa-0144-b89b-cd7a78d79981?t=1554872219971

Government of India.(2014). *Governance in Gram Panchayats*. Retrieved from https://www.in.undp.org/content/dam/india/docs/DG/Governance%20in%20GP.pdf

Government of Kerala.(2015). *Report of the Fifth State Finance Commission Part-I*. Retrieved from http://www.sfc.kerala.gov.in/previousSfcReport.htm?pageAction=viewDocument&attachmentId=17

Government of Kerala.(2016). *Report of the Fifth State Finance Commission Part-II*. Retrieved from http://www.sfc.kerala.gov.in/previousSfcReport.htm?pageAction=viewDocument&attachmentId=17

Indian Institute of Public Administration. (2019). *Financial Matrix for Empowerment –Design of Inter-Governmental Fiscal Transfers in India to Rural Local Governments.* Retrieved from https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/StudyReports/Design%20of%20intergovernmental%20fiscal%20transfers%20in%20India%20to%20Rural%20Local20Governments.pdf

Mahi Pal. (1997). Panchayati Raj in India: Issues and Challenges. *Kurukshetra*.72-79.

Mahi Pal. (2018). *Panchayati Raj in India*. New Delhi, India: Publications Division.

Mahi Pal. (2020). *Rural Local Governance and Development*. New Delhi, India: The Sage.

The Constitution (Seventy-fourth Amendment) Act, 1992. Retrieved from https:// www. india. gov. in/ my-government/ constitution – india/ amendments/ constitution- india-seventy-fourth-amendment-act-1992

The Constitution (Seventy-third Amendment) Act, 1992. Retrieved from https://www.india.gov.in/my-government/constitution-india/amendments/ constitution-india-seventy-third-amendment-act-1992

The Haryana Panchayati Raj Act, 1994. Retrieved from https://www.panchayat.gov.in/documents/20126/0/The+Haryana+Panchayati++Raj+Act+1994.pdf/6045c87f-2008-4796-fdf4-1ec30d951b00?t=1554877646549

The Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996. Retrieved from https://www.indiacode.nic.in/bitstream/123456789/1973/1/A1996-40.pdf

XV Finance Commission. (2019). *Report of Fifteenth Finance Commission*. Retrieved from https://fincomindia.nic.in/writereaddata/html_en_files/ fincom15/ Reports/XVFC_202021%20Report_English_Web.pdf

7.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points:

   Provisions related to:

   - resource mobilisation,
   - maintenance of accounts, and
   - audit.

2) Your answer should include the following points:

   - For your answer, refer to Section 7.4

Check Your Progress 2

1) Your answer should include the following points:

   - For your answer, refer to Section 7.6

2) Your answer should include the following points:

   - Social audit is a process for ensuring the accountability of the Panchayats in which details of the financial and non-financial resources used by the Panchayats in the implementation of development projects or programmes, achieving objectives, progress are shared with the villagers.
   - The villagers examine these details, verify, seek clarifications and convey their opinion to the Gram Panchayats with regard to suggestions for corrective actions and improvement.
   - In addition to auditors, views of villagers have also been captured to examine a particular activity/work both financially and publically.