

CHAPTER-III

EVOLUTION OF PANCHAYATI RAJ FINANCES IN WEST BENGAL

Panchayati Raj bodies shoulder a wide range of responsibilities under the new dispensation of 73rd Amendment Act. This is viable only when the Panchayati Raj Institutions have adequate resource base. This chapter intends to present a broad picture of Panchayati Raj finances in West Bengal and as well as in India.

3.1 Theoretical Framework of Panchayati Raj Finance

Decentralisation of powers will remain a mere slogan and Panchayati Raj as a rural self-government can never meet the challenges of rural life if it does not have a sound resource base. Adequate availability of fund must accompany devolution of specific functions to the Panchayats. Financial autonomy is the backbone of local government. It determines the size of their activities and testifies to what extent decentralisation of powers has taken place. It also governs their ability to plan and discharge functional responsibilities. An affluent local government attracts men of outstanding calibre in its political and administrative sphere and commands confidence of the people as well as the government. It therefore, follows that a realistic approach to the study of Panchayati Raj as a unit of self-government must necessarily include an analysis of its revenue base. The question posed by Sri Balwantrai Mehta deserves to be quoted here: "Have we given them adequate resources with which to work? You give them responsibilities, you give them powers, but if you do not give them the revenue with which to work, how do you expect them to function successfully?unless the resources are there, they will not be able to make an impact on the popular mind and make the people understand that there is some thing which has come to their rescue after many centuries. So the problem of resources is very important and vital before we begin to judge the efficiency of the Panchayati Raj system" ¹. In any discussion of local government finance, it is necessary to assume a few propositions clarifying what local government is for and what is expected of it. For the purpose of classification the following value-premises are advanced:

1. It is assumed that local government institutions are politically responsible units, and within the sphere of their activity, these are fairly autonomous.
2. It is further assumed that the higher tiers of governments - State and Central would increasingly devolve functions and resources to the local governments in order to discharge their responsibilities to the fullest extent, and
3. It is also assumed that the increased responsibilities and the freedom of decision making by the local governments would accompany a large measure of financial autonomy, away from dependence on the external sources, such as the State and the Central governments.

As against these assumptions, let us examine the structural construction of Panchayat finance. The State governments provide the base for local finance through the Panchayat Acts in respect of sources of revenue, nature of expenditure, preparation and execution of budgetary proposal, the need for government appraisal etc. The fiscal structure of the Panchayati Raj is made up of its income and expenditure as reflected in the budget adopted and implemented according to the Act.

The Panchayat derive their income mainly from two sources: (i) tax source and (ii) non-tax source. The tax source generally comprises certain taxes (property tax, professional tax, etc.) compulsory in nature and certain taxes and fees, rates, cesses etc. (vehicle tax, registration fees etc.) which are optional in nature. The non-tax source consists of (i) share of taxes and grants from government, (ii) loans and borrowings, (iii) revenue from remunerative assets and enterprises, and (iv) gifts and donation from the people.

There are three forms of tax from which flows a sizable income to the Panchayats: (i) taxes levied and collected by the Panchayats themselves, (ii) taxes raised locally but collected centrally by government though spent on decentralised basis (entertainment tax in some States) and (iii) taxes levied and realised by the government but shared by the Panchayats (land revenue).

Emphasis has always been on mobilisation of resources through self-taxation by the Panchayats since that ensure greater local political responsibility and popular involvement. Apart from this, self-taxation strengthens financial self-sufficiency and reduces dependence on the State government for financial assistance. But revenue from

this source is marginal and hardly contributes to attaining financial self-sufficiency. Some of the reasons generally identified are:

1. the limited tax base,
2. inelasticity of the local taxes,
3. statutory restrictions,
4. general reluctance of the Panchayats to impose taxes,
5. inadequate collection machinery, and
6. tax evasion at large.

The two major components of non-tax source are (i) share of taxes, and (ii) grants from government. Self - taxation being limited in scope and revenue-yielding the creation of a strong resource base demands transfer of revenue through these two ways. Since the number of taxes shared with the Panchayat authorities is extremely limited (The Zilla Parishad Act, 1963 provided for sharing of only two taxes – land revenue and road cess – with the Zilla Parishads) the importance of government grants as an instrument of Panchayat finances has been increasing. Grants are broadly of two types: (a) block grant or general purpose grant and (b) specific purpose grant.

Generally speaking the block grant or general purpose grant takes the shape of per capita grant, matching grant, incentive grant, and maintenance grant and so on. The village Panchayat in West Bengal are entitled to a lump grant of Rs. 1300/- per annum. While the Anchal Panchayats and the Zilla Parishads receive maintenance grants for meeting expenditure on account of salaries and allowances of their staff.

Incentive grants for outstanding performance in mobilising tax resources are also in vogue. The Santhanam Committee on Panchayati Raj finance recommended award of some sort of maintenance assistance to the Panchayats. "Efforts by the Panchayats to raise local resources by taxation and by other ways will be more successful if people know that proceeds are to be used for the provision of civic amenities and not for mere administrative expenses. We, therefore, recommended that basic minimum maintenance assistances of Rs. 1/- per capita should be given to every Panchayat and the central government and State governments should share equally in such assistance"². Assam, Rajasthan and Tamil Nadu assign land revenue on per capita basis. In Rajasthan, the government gives Rs. 2.50/- per head of population per Panchayat. The grant is easier to

administer, no doubt. But it does not take into account the relative resources and tax efforts of the Panchayats. The Governments of Maharashtra and Tamil Nadu give a matching grant to the Panchayat unions on the basis of the rate of local cess surcharge levied by them. The incentive grants or matching grants provide stimulus to the Panchayati Raj Institutions to adequately utilise the existing tax paying capacity of the rural population and there by intensifying their own efforts for a greater utilisation of tax resources.

Specific grants are extended for certain specific purposes. Such grants are made available for execution of developmental programmes and carrying out different 'agency' functions. The transfer of functions relating to implementation of project at the district level to the Zilla Parishad or at rural level to lower tiers of Panchayats involve transfer of fund along with the projects. Through award of specific grants the State governments get an opportunity to dictate the terms and the recipients are to oblige.

While the growing importance of grant system as a part of fiscal management has to be recognised, the need for its rationalisation cannot be ignored. The Layfield Committee of the United Kingdom (UK), for instance, has recommended the rationalisation of the grant procedure in the following manner by ensuring: "(a) greater certainty over several years, in the levels of grants, (b) more stability in grant distribution, (c) a better integrated time-table for grant determination and local budgeting, (d) a unitary grant, which should not be related with expenditure but with provision of some common level of service to a common tax rate"³.

It is, however, very difficult to ascertain whether grants-in-aid aim at strengthening self-governing institutions or paves the way for supervision and control of their working. Generally speaking, grants are used as an instrument of both stimulus and control. Where controls aim at proper guidance of the Panchayats in administrating programmes in the public interest nothing wrong is there. Yet the apprehension that unconditional grants may make the local governments wreckless in their expenditure, sap them of their initiative to mobilise local resources, and lead to administrative rigidity and bureaucratic dilatoriness, thereby striking at the very root of grass-roots 'democracy' can not be ruled out altogether.

“Like other aspects of local finance, the loans and bonds policy is primarily decided through the local government Act with the government and the local government working out the details. Generally, loans are raised to meet the capital expenditure involved in satisfying the increasing local needs which are developmental in character, while services in the nature of maintenance are not either through local revenue or through grants-in-aid”⁴. Provisions exist in almost all the States to enable the PRIs to borrow from government. In West Bengal also the Panchayat Acts provide for raising of loans by the Zilla Parishad and other tiers of the Panchayat. The Governments of Karnataka, Hariyana and Punjab advance loans to the Panchayats for creation of remunerative assets. Such loans may take different forms. The government itself may act as the principal source for loan capital. In selected cases, government may provide seed money to the Panchayats when they secure institutional financial support to build up remunerative assets. The local governments may also be encouraged by the government to borrow loans from agencies specially constituted or approved by it.

3.2 Finances of Panchayati Raj Institutions in India

It is quite encouraging that most State governments have constituted State Finance Commissions (SFC), as required by the 73rd Constitutional Amendment, to make an assessment of the finances of both Panchayats and municipalities. The notable recommendations come from Kerala, West Bengal and Karnataka. In Kerala, the Panchayats get around 35 to 40 per cent of the total plan expenditure in the form of grant-in aid, untied fund. The general category fund is divided among the Gram, Taluk and Zilla Panchayats in the ratio of 70:15:15 respectively. In West Bengal it is in the ratio of 50:20:30. In Karnataka it is the opposite, the allocation is in the ratio of 25:35:40. There is need to strengthen village Panchayats with more finances since these institutions are very close to the people and would motivate them to formulate and implement development programmes of their choice. The SFC in Karnataka has recommended devolution of finances in percentage terms and not in absolute amounts. Further the Commission suggested five indicators – population, area, illiteracy rate, and number of persons per hospital bed and road length – as criteria for devolving finances to Panchayats. Andhra Pradesh government has evolved a formula, based on the

recommendation of SFC, to categorise GPs as advanced, ordinary, backward and tribal with necessary weightages.

One of the weak links of Panchayat finances is the poor mobilisation of tax revenues. In fact, this has been seen as negative implications of decentralisation. Close access of people to those institutions has hindered the process of mobilisation. In order to encourage Panchayats, Tamil Nadu has gone in for an incentive scheme called 'equalisation and incentive fund' which is shared between rural and urban local bodies at the rate of 60:40. This fund is being used to give incentives for reasonable mobilisation through own resources by the local bodies and to bridge the resources and infrastructural gap existing between the local bodies. The Rajasthan SFC has strongly favoured establishing a system of matching grants, where a Panchayat raises additional funds; the State government should provide 50 per cent matching grants. A more important recommendation from this Commission is to set up 'Finance Corporation' in rural and urban areas in order to facilitate investment in Panchayat and urban bodies.

A question that often arises in the above context is the 'political will' and 'wisdom' of the government in power to honour some of the above recommendations. If the response is positive, Panchayats would certainly have some financial autonomy to undertake developmental activities. The picture that emerges from the reports is that not all recommendations of the Finance Commissions are accepted by the respective governments, some are accepted and some are under consideration.

3.3 Broad Scenario of PRIs Finances

A decentralized efficient decision-making system is essentially needed for rapid and balanced development of Indian economy. The PRIs have to play a major role for the economic transformation of the rural economy. In this connection a sound financial system is essentially needed for the proper functioning of the PRIs. The Panchayats were generally considered as main agencies of rural development. The financial resources of these bodies were not adequate to implement the functions they were expected to perform. So far, no efforts were taken to estimate the minimum requirements of these bodies at the local level.

Panchayats, the lifeblood of village India ought to have been mentioned in the Directive Principles of State Policy. It was believed that real devolution of power from

Centre to Panchayat will make the villagers enthusiast in making success of rural development schemes. Though structure of PRIs consisting either of three-tier or two-tier or one-tier or traditional, has been erected all over India, the power to plan and execute the programmes of rural development could not be made successful without revenue resources at hand. An institution cannot deliver goods without adequate resources. Therefore, funding or finances of local self-governing body have important implications for local autonomy, development and democratic process. An ideal system of local self-government should have freedom to raise taxes and to decide on how the resources are used rather than rely largely or wholly on resources allocated by the higher tiers of the government (State and Central Government).

Different committees appointed to look over the working and performance of PRIs in India such as Balwantrai Mehta Committee, Santhanam Committee, Ashok Mehta Committee, G. V. K. Rao Committee, and L. M. Singhvi Committee broadly came to the conclusion that finance was the main problem before the Panchayati Raj Institution. Every state has its own system regarding the finance. No one can be taken as an ideal to be emulated throughout the country.

After independence, with regard to the functions assigned to PRIs, the Taxation Enquiry Committee (1953-54), observed that in most of the States a village within its jurisdiction overlaps with higher bodies functionally as well as financially. The committee suggested that the functions, finances and taxation powers of the higher body should be coordinated with those of the village Panchayats to safeguard its growth and efficiency. This should be one of the functions of the higher body⁵.

3.3.1 Balwantrai Mehta Committee (1957)

The Balwantrai Mehta study team was appointed in January, 1957, to study and report on the Community Development Projects (CDP) and National Extension Service (NES) with a view "to economy and efficiency" and "among others for the assessment of the extent to which the movement had succeeded in utilising local initiatives and in creating institutions to ensure continuity in the process of improving economic and social conditions in rural areas"⁶.

The Balwantrai Mehta Committee offered two broad directional thrusts: first, it argued that there should be administrative decentralisation for the effective

implementation of the development programme and second, that the decentralised administrative system should be under the control of elected bodies.

Community development can be real only when the community understands its problems realised its responsibilities, exercise the necessary powers through its chosen representatives and maintain a constant and intelligent vigilance on local administration. With this objective the committee recommended an early establishment of statutory elective local bodies and devolution to them of necessary resources, power and authority. Secondly, the basic unit of democratic decentralisation was to be located at the Block/Samiti level and only an advisory role was contemplated for the Zilla Parishad.

The Balwantrai Mehta Committee felt that one of the less successful aspects of the CDP and NES work was its attempt to evoke popular initiative. So long as we do not discover or create a representative and democratic institution which will supply the local interest, supervision and care necessary to ensure that expenditure of money upon local objects conforms to the "needs and wishes of the locality", invest it with adequate power and assign to it appropriate finances, we will never be able to evoke local interest and excite local initiative in the field of development.

The village Panchayat is too small in area, population and financial resources to carry out all these functions. Obviously, the next higher body will have to function with and through the Panchayats as far as possible, for the very reasons for which such a body will be created. The body at the Block level referred to as Panchayat Samiti and at the district level referred to as Zilla Parishad should be constituted by indirect elections from the village Panchayats.

3.3.2 Santhanam Committee (1963)

The Santhanam Committee, after a careful consideration of the local resources pleaded that financial resource should be made available to these local bodies. Thereafter, transfer of substantial and growing resources of income to these bodies was accepted as an essential concomitant for the stability and growth of these bodies. The committee has given the estimate of Rs. 1500 as the minimum income needed for smallest basic unit to be functional. This figure would have multiplied by now owing to the increasing inflation and other factors.

The study team examines the resources and finance of Panchayati Raj in different States and makes recommendations on the subject such as grants by State Governments and conditions to be attached to such grants, mutual financial relations between the Panchayat institutions, developing the existing resources and to build up revenue yielding assets for Panchayati Raj Institutions, steps to attract voluntary contributions by individuals and with regard to functions transferred, sources of revenue and arrangement for earmarking certain resources for maintenance of services. The study team travelled over a number of States and made recommendations numbering more than a hundred on aspects like resources of Panchayats, expenditure of Panchayats, resources of Panchayat Samitis, Zilla Parishads, budget account and audit and loans to Panchayat bodies.

3.3.3 Ashok Mehta Committee (1978)

The committee reviewed the structural and operational aspects of Panchayati Raj and came to the conclusion that the story of Panchayati Raj had been a story of ups and downs. It drew three phases of Panchayati Raj System: the first was the phase of ascendancy (1959-1964), second the phase of stagnation (1965-1969) and third that of decline (1969-1977).

After evaluating the performance of PRIs, the committee focused on financial resources and other issues related to finances of PRIs. The committee suggested that apart from the devolution from the State government, the Panchayati Raj should mobilize enough resources of its own. For this the PRIs should be empowered with certain local taxes. The practice "no taxation, only representation" should be discarded and a selected list of taxation powers should be given to PRIs. The compulsory levied taxes would embrace the house tax, profession tax, entertainment tax, special tax on land and buildings by the PRIs at appropriate level⁷.

Further in its study of the financial resources of Panchayati Raj bodies has found that a substantial portion of the income of Gram Panchayats is drawn from taxes and fees – optional and compulsory. The all India average figure is 'untenable' due to the vast variations. The trend shows that the portion of receipts from tax income to the total income has not gone up substantially except for Kerala. Even within a State, averages are meaningless due to the wide variations in size, population and the taxable capacity of Panchayats. Any comparison of average incomes has to be made on the basis of the size

of the Panchayat in terms of area and population. A better indicator would be the per capita receipts of the persons covered by all the Panchayats in the States. On per capita comparison, Maharashtra and Gujarat topped the list then, followed by Kerala, Andhra Pradesh and Tamil Nadu (Rs. 8.41, Rs. 7.11, Rs. 5.61, Rs. 4.56 and Rs. 3.78 respectively). While Uttar Pradesh showed per capita tax income as only Rs. 0.61.

3.3.4 G. V. K. Rao Committee (1985)

After the Ashok Mehta Committee another committee known as the G. V. K. Rao Committee looked at various aspects of PRIs. The committee felt that the time had come to take a total view of rural development. It has to encompass all economic and social development activities handled by different agencies at the field level. It was of the view that PRIs have to be activated and given all the support needed so that they can become effective organisations for handling people's problems. Elections to these bodies should be held regularly. It recommended that the BDO should be the sheet-anchor of the rural development process. But the district should be the basic unit for policy planning and programme implementation. The Zilla Parishad should, therefore, become the principal body for the management of all development programmes which can be handled at that level. Treating development administration at the district level as a major activity involving significant responsibilities the committee recommended that a post of District Development Commissioner (DDC) be created to look after and coordinate all the development activities in the district. Along with the establishment of the office of the DDC significant restructuring of planning and implementation machinery at the district level should also be effected ⁸.

The G. V. K. Rao Committee while looking into the role of PRIs in rural development, pointed out the weak financial position of PRIs (as per the estimates available for the year 1982-83), whereby the total tax revenue realized by PRIs constituted a mere 0.1 per cent of the total State tax revenue. Further, the tax and non-tax income including grants received by the PRIs constituted 4 per cent of the tax and non-tax revenue of all States and 3 per cent of all tax and non-tax revenue and capital receipts of all States.

3.3.5 L. M. Singhvi Committee (1986)

The committee for the Concept Paper on Panchayati Raj Institutions (CCPRI) popularly known as the L. M. Singhvi Committee was constituted by the Government of India, Department of Rural Development in 1986. The committee took the Indian villages and the Gram Sabha as the republican base of our democratic nation. It considered the Gram Sabha as the embodiment of direct democracy.

The committee was of the view that the PRIs have to be viewed as institutions of self-government which would naturally facilitate the participation of the people in the process of planning and development flowing from and as a part of the concept of self-government. The committee also felt that bureaucratic structures and devolutionary strategies cannot achieve people's participation in a meaningful manner.

Perhaps for the first time, the committee envisaged and recommended that local self-government should be constitutionally recognised, protected and preserved by the inclusion of a new chapter in the Constitution. Local self-government and more particularly, PRIs should be constitutionally proclaimed as the third tier of the government.

The L. M. Singhvi Committee suggested for allotment of adequate resources for implementing various rural development and poverty alleviation programmes at the grass root levels.

With a view to providing constitutional status to local self-government to import "certainty, continuity and strength", for devolution of powers to local bodies (G. V. K. Rao Committee: 1985) and for allotment of adequate resources (L. M. Singhvi Committee: 1986), were taken into account while the 73rd and 74th Amendments to the Constitution of India were carried out in 1992. It had paved the way for the constitution of Finance Commission in all States within a year of Constitutional Amendment Act and thereafter for every fifth year for looking into the finances of local bodies and devising a system of distribution of Government revenues to local bodies, its powers of taxation and its responsibilities for improving its local finances and services.

The local self-government system in India has seen massive reforms in the wake of 73rd Constitutional Amendment. It is believed that delivery of goods and services to people is most effectively done by the government agency close to the people. The 73rd

Constitutional Amendment added a new dimension to Indian federal finance system, as there is a need for better sense of direction and clear evolution of objective criteria and norms for inter-governmental transfer of resources.

3.4 73rd Amendment Act, 1992

The 73rd Constitutional Amendment Act ⁹, 1992 received the assent of the President on April 20, 1993 and was notified on April 24, 1993. As per the amendment, Part IX the Panchayat shall be inserted after Part VIII of the Constitution. The Act provides for the establishment of Panchayat in every State with the following feature:

3.4.1 Power, Authority and Responsibilities of Panchayats

Subject to the provisions of this 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 institution of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to:

1. The preparation of plans for economic development and social justice, and
2. 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 (XI) Schedule.

3.4.2 Powers to Impose Taxes and Funds of the Panchayats

The legislature of a state may by law authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls, and fees in accordance with such procedure and subject to such limits. It can also assign to a Panchayat such taxes, duties and tolls and fees levied and collected by the State government for such purposes and subject to such conditions and limits. It is to provide for making such grants-in-aid to the Panchayats from the consolidated fund of the State and further for construction of such funds for creating 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.

3.4.3 Constitution of Finance Commission

The Governor of the State shall, as soon as may be within one year from the commencement of the Constitution (73rd Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial

position of the Panchayats and to make recommendations to the Governor as to the principles which should govern:

1. the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this part and the allocation between the Panchayats at all levels of their respective shares of such proceeds,
2. the determination of the taxes duties, tolls and fees which may be assigned to, or appropriated by the Panchayats,
3. the grants-in-aid to the Panchayats from the consolidated fund of the State, the measure needed to improve the financial position of the Panchayats and any other matter referred to the Finance Commission by the Governor in the interest of sound finance of the Panchayats.

The legislature of State has been vested with the power to provide for the composition of the commission, the disqualifications which shall be requisite for appointment as members thereof and the manner in which they shall be selected. The commission shall determine their procedure and shall have such powers in the performance of their functions as the legislature of the State may, by law, confer on them.

3.4.4 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.

3.4.5 Addition of Eleventh Schedule (Article 243G)

After the tenth schedule to the Constitution, the following schedule, shall be added, namely:

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. Markets and fairs.
23. Health and sanitation, including hospitals, Primary Health Centres (PHC) 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 (SC) and Scheduled Tribes (ST).
28. Public Distribution System (PDS).
29. Maintenance of community assets.

Table-3.1: Salient Features of Constitution, Amendment Bill and Act about PRIs

Sl. No.	Features	64 th Amendment Bill	74 th Amendment Bill	73 rd Amendment Act
1.	Year of introduction	1989	1990	1992
2.	Gram Sabha	no	yes	yes
3.	Constitution	Intermediate district	Single tier village level	Three tier village level
4.	Composition	State legislature to make provisions	State legislature to make provisions	State legislature to make provisions
5.	Reservation of seats	SC/ST in proportion to population, 30% for women	SC/ST in proportion to population, 1/3 for women, provision for backward classes	SC/ST in proportion to population, 1/3 for women, provision for backward classes
6.	Duration	Five years	Five years	Five years
7.	Disqualification of member	No provision	Provision for disqualification	Provision for disqualification
8.	Power and responsibilities	State legislature to make provisions	State legislature to make provisions	State legislature to make provisions
9.	Finance commission	Governor to constitute	State Government to constitute	Governor to constitute
10.	Election commission	Election commission	Election commission	Election commission
11.	Audit of accounts	Audit by CAG	No provision for audit	Legislature to make provisions
12.	Interference by courts	No provision	Bar on courts in Electoral matters	Bar on courts in Electoral matters
13.	Status of the bill	Lapsed	Lapsed	Notified on 24 th April 1993

Source: Legislative Status of Panchayati Raj in India (1997), IIPA, New Delhi, p. 38.

3.5 Summary

The PRIs have to play a major role for the economic transformation of the rural economy. In this connection a sound financial system is essentially needed for the proper functioning of the PRIs. An institution cannot deliver goods without adequate resources. Therefore, funding or finances of local self-governing body have important implications for local autonomy, development and democratic process.

Different committees appointed to look over the working and performance of PRIs in India such as Balwantrai Mehta Committee, Santhanam Committee, Ashok

Mehta Committee, and L.M. Singhvi Committee broadly came to the conclusion that finance was the main problem before the Panchayati Raj Institution. Every State has its own system regarding the finance. No one can be taken as an ideal to be emulated throughout the country.

The local self-government system in India has seen massive reforms in the wake of 73rd Constitutional Amendment. It is believed that delivery of goods and services to people is most effectively done by the government agency close to the people. The 73rd Constitutional Amendment added a new dimension to Indian federal finance system, as there is a need for better sense of direction and clear evolution of objective criteria and norms for inter-governmental transfer of resources.

The Panchayats have been empowered with such powers and authorities as are necessary to enable them to function as institutions of self-governance. Such laws may also contain provisions for the devolution of powers and responsibilities to Panchayats for preparing plans and to implement schemes for economic development and social justice on various subjects including those in the Eleventh Schedule.

The Panchayats survived mostly on government grants and they have performed agency function only. With the implementation of 73rd Constitutional Amendment which makes these bodies self-governing institutions, serious effort needs to be made to improve their financial position. After reviewing the structure and situation of finances in the country, we will now turn to examine in detail the status of finances of Panchayats in West Bengal.

Notes and References

1. Report of the Study Team for the Study of Community Projects and National Extension Service (Chairman Balwantrai Mehta), Government of India, New Delhi, 1957.
2. Report of the Study Team on Panchayati Raj Finances, Ministry of Community Development, Government of India, 1963.
3. Report of the Layfield Committee (Chairman Frank Layfield), United Kingdom, 1976. The Layfield Committee reported in 1976, offering the Government a choice between a more centrally – controlled system of local authority finance or a system with greater local autonomy. The latter system, favoured by a majority of the Committee, would have required a significant increase in local financial autonomy and the introduction of a new source of local revenue.
4. Ibid.

5. Report of the Taxation Enquiry Committee (1953-54), Government of India, New Delhi.
6. Report of the Study Team for the Study of Community Projects and National Extension Service (Chairman Balwantrai Mehta), Government of India, New Delhi, 1957
7. Report of the Committee on Panchayati Raj Institutions (Chairman Ashok Mehta), Ministry of Agriculture and Irrigation, Department of Rural Development, Government of India, New Delhi, 1978. (See Chapter IX, Financial Resources).
8. Report of the Committee to Review the Existing Administrative Arrangements for Rural Development and Poverty Alleviation Programmes (Chairman G.V.K. Rao), Department of Rural Development, Ministry of Agriculture, Government of India, New Delhi, 1985. (See Chapter VI).
9. The 73rd Constitutional Amendment Act, 1992. While moving the Bill in the Parliament in 1991 the minister observed the intention of the bill to give power to the people and enshrine democracy at the grassroots level. Further Article 243G intends to make PRIs as the institution of self-government by endowing them powers and authority to plan and implement the programmes of economic development and social justice including those in relation to the matters listed in the 11th Schedule.

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