

# CHAPTER-I

## INTRODUCTION

### 1.1 Statement of the Problem

Finance forms an important part of any functional organisation, as functions cannot be materialized without finance and finance without functions have no justification. At the same time the financial resources of the local government, must correspond to the functions and obligations assigned to them. Hence, the rationale of resource development becomes imperative. The tax structure and allocation of resources among the Panchayat bodies in different States vary according to the statutory and rules and regulations framed by these States.

The system of grassroots governance has been in existence in India since the earliest Vedic times. However, following Balwantraji Mehta Committee report, the present system of Panchayati Raj (PR) was first introduced in the year 1959. Since then this system has evolved differently in different States. It has seen many ups and downs. Barring a few notable exceptions, Panchayati Raj Institutions (PRIs) could not become vibrant institutions of self-governance due to lack of political will and committed support of the bureaucracy. Irregular election, inadequate representation of weaker sections of society, prolonged supersession, and absence of financial and functional autonomy, insufficient devolution of powers and lack of resources became common characteristics of these institutions. Nevertheless the system of Panchayati Raj was always considered as the only hope to facilitate participatory process at the grassroots level besides meeting the local needs and aspiration of rural masses in general and hitherto excluded ones, in particular. Thus it became necessary to provide Panchayats a Constitutional status and strengthen them as institutions of governance at local level. The Constitution (73<sup>rd</sup> Amendment) Act, 1992 was meant to provide Constitutional sanction to establish "democracy at the grass-root level as it is at the State level or National level"<sup>1</sup>.

The Constitution (73<sup>rd</sup> Amendment) Act, 1992 came into operation with effect from 24<sup>th</sup> April 1993. It was mandatory on the part of the States (coming under its purview) to amend their respective Panchayat Acts by 23<sup>rd</sup> April 1994. Out of a total of

25 States and 7 Union Territories in our country, 21 States and 6 Union Territories were required to amend their existing Panchayat Acts in conformity with the Central Act. All of them passed their Conformity Acts within the said period. At present, there are about 34 lakh representatives of Panchayats at all levels comprising 31, 98,554 at the village level, 1, 51,412 at the intermediate level and 15,935 at the district level. These members represent 2, 27,698 Gram Panchayats, about 5,906 Panchayat Samitis and 474 Zilla Parishads. The new Panchayats cover length and breadth of the country covering 96% of about 5.8 hundred thousand villages and nearly 99.6% of rural populations. This is perhaps the largest experiment in decentralisation of governance attempted anywhere at any time in the history of humanity<sup>2</sup>.

The implementation of development programmes is the predominant activity of the Government of India. Decentralisation is a necessary concomitant for the benefit of development programmes to reach all sections of society particularly the weaker sections, as it is not possible for the Central Government to effectively administer programmes at local levels.

It is suggested that a local government unit can perform the following four-fold functions: (a) promotion of popular participation, (b) spurring of economic development, (c) social transformation and (d) equitable distribution of the fruits of development. If the local government are to fulfil its functions, there has to be a meaningful partnership among the different levels of the government.

If the local bodies are to fulfil the functions expected of them, there is need for mobilisation of substantial resources. However, they operate under certain constraints. They tend to be weak because their financial resources are limited. Mobilisation of resources has not been a strong point of the local governments, at least in the rural areas. The schemes of development to a large extent are decided and funded outside of the local body though the implementing agency might be the local body. There is need to reconsider the public expenditure policy of the local government so that it can effectively be geared to the promotion of economic growth providing infrastructure facilities and meeting the felt needs of the community.

One of the greatest weaknesses of erstwhile PRIs was that they were starved of funds. They had very little resources of their own and they were usually dependent on the

government for their funds. The financial grants were given at the will and pleasure of political executive on an adhoc basis. "It was hoped that the new Act will ensure to the Panchayats a measure of financial strength which would enhance their autonomy and authority"<sup>3</sup>.

The setting up of village Panchayats to replace the Union Boards was initiated in the early fifties in the State of West Bengal. The West Bengal Panchayat Act, 1957 was enacted to replace the village Self-Government Act of 1919 and restructured the local self-government in villages by introducing two-tier Gram Panchayats (GPs) and Anchal Panchayats (APs) in place of the Union Boards. Besides, the concept of Gram Sabha was introduced. However, no serious endeavour was made to immediately implement the provisions of the 1957 Act. As a result, the progress in the conversion of the Union Boards into Anchal and Gram Panchayats was extremely slow. Moreover, there was no linkage between the Panchayats in the village and the district boards. In 1963 the West Bengal Zilla Parishads Act was passed to provide for the remodelling of local government with a view to bring about democratic decentralisation and people's participation in planning and development. Under this Act, two corporate bodies were created - Anchalik Parishads at the block level and Zilla Parishad (ZP) at the district level. There was no direct election to any of these bodies<sup>4</sup>.

Thus, the 1957 Act providing for Gram and Anchal Panchayats and the 1963 Act providing for Anchalik and Zilla Parishads formed the basis of the Panchayati Raj structure of the State.

The Congress Government introduced the West Bengal Panchayat Act towards the end of 1973, displacing the earlier Acts of 1957 and 1963. With this Act, the State's Panchayat system fell in line with the all-India pattern of a three-tier system. The Act however, was not implemented and the Panchayat system was in a moribund State until 1977. The Act was amended several times and more recently in 1992, 1994 and 1997, so as to conform to the 73<sup>rd</sup> Constitutional Amendment.

The Act empowers the Gram Panchayat to raise resources, through tax on lands and buildings, fees and user charges. But the track record of Panchayats to utilise properly such fiscal powers has been very poor. Case studies done on the subject indicate that GPs generate not more than 20 to 25 percent of their total revenue receipts internally.

The Act has provisions for levying additional stamp duty on transfer of property and entertainment tax, but the State Government has not enforced the provisions. At the Panchayat Samiti (PS) level, there is practically no source of revenue, except for some minor fees and tolls. The main source of Zilla Parishad revenue was supposed to be a share of the land revenue and the cess on the same. Land revenue is no more a lucrative source and hence, its share forms an insignificant part of Zilla Parishad revenue. They are, however, entitled to impose tolls and realise fees. Besides, by leasing ferries, fisheries, land or buildings under their ownership or management, they realise some revenue. But receipts from all these sources do not cover more than a fifth of their total revenue receipts<sup>5</sup>.

Thus, internal resource generation of Panchayats at all levels is very poor. As a result, they are totally grant-dependent. Almost 100 percent of development expenditure is financed by schematic fund received from the government, especially from Jawahar Rozgar Yojana (JRY) and other poverty alleviation schemes like Employment Assurance Scheme (EAS) etc. They are also almost totally dependent on State governments for their revenue expenditure. Entire expenditure on the salary of their staff is borne by the State governments. A close look into the available data on the mobilization of resources by the PRIs, of different districts in West Bengal reveals that there are wide variations in performances of the districts in this regard. Moreover, even within a district different Panchayats have performed in this regard differently. There are some apparent factors responsible for these differences. Thus, it calls for our attention to identify these factors and to study the differential performances of different Panchayats in this respect.

Keeping the above aspects in mind, the present research work has made an attempt to explore the mobilization and utilization of existing resources, factors responsible for poor mobilization of resources and possibility of raising more resources by creating new sources. In addition to delving deep into the issues for the State as a whole we would like to make a case study of comparative performance in the utilization of revenue sources by the Panchayats in Darjeeling and Dakshin Dinajpur districts in North Bengal. On various socio-economic indicators, including collection of revenues by Panchayats, Darjeeling district could be found to be in a better position than Dakshin Dinajpur district. Thus a comparative case study of Panchayat finances of the PRIs of the

two districts in North Bengal may suggest some important steps for ushering in some improvements in the performance of PRIs of our country.

From the existing literature, it appears that a very few studies have been undertaken in West Bengal on issues connected with Panchayat finance, though there have been some studies in some other States in India. Therefore, in the changing face of rural development, it warrants our attention to make a detailed and in-depth study of the finances of PRIs in West Bengal. The study has made an humble effort to explore the issues related to Panchayat finance in considerable detail, and thus it is expected that the study would make an important contribution to the existing literature and fill an important gap in research in this field.

## **1.2 Panchayati Raj Institutions in India a Theoretical Perspective and Historical Retrospect**

The history of village level Panchayati Raj Institutions (PRIs) in India goes back to hundreds of years. A feature of these institutions was that they were largely self-governing although their social background was characterised by a rigid social structure.

Between ancient, medieval and modern periods, the growth of Panchayats had ups and downs. It is only from the year 1870 that India saw the dawn of representative local institutions. The famous Mayo's Resolution of 1870 gave impetus to the development of local institutions by enlarging their powers and responsibilities. Following the footsteps of Mayo, Lord Ripon in 1882 provided the much needed democratic framework to these institutions. All boards had to have a two-thirds majority of the non-officials who had to be elected; the chairmen of these bodies had to be from among the elected non-officials. Local self-government institutions received a boost with the appointment of Royal Commission on decentralisation in 1907 under the Chairmanship of C.E.H. Hobhouse. The commission viewed that local government should start from the village level rather than the district level.

The years that followed, after the First World War, saw the advent of leaders like Mahatma Gandhi on the national political scene. It is Gandhi who set the tone of the nationalist point on the Panchayat and declared that "the village Panchayats would be now a living force in a special way, and India would almost be enjoying self-government suited to its requirements"<sup>6</sup>. The development of local self-government institutions got

further fillip with the introduction of Montague Chelmsford Report which made local self-government a 'transferred subject' under the scheme of Dyarchy. The most significant development of this period was "the establishment of the Village Panchayat in a number of provinces, no longer a mere adhoc judicial tribunal, but a representative institution symbolising the corporate character of the village and having a wide jurisdiction in respect of civic matters" <sup>7</sup>. However, due to organisational and financial constraints the scheme evolved by the reforms did not make the Panchayats truly democratic and vibrant institutions of local self-government. Yet, by 1925, eight provinces had passed Panchayat Acts and by 1926, six native States had also passed Panchayat laws.

A critical assessment of the performance of local self-government institutions was made by D.P. Misra, the then Minister for local self-government under the Government of India Act of 1935 in Central Provinces and Behar. He was of the view that "the working of our local bodies in our province and perhaps in the whole country presents a tragic picture ... 'Inefficiency' and 'local body' have become synonymous terms..." <sup>8</sup> Having opposed the existing system of responsible government at the grassroots level, the Minister proposed reforms which marked a departure from the recommendations made by earlier committees and commissions. To rejuvenate the system of local self-government, Misra proposed a scheme in which decentralisation of administration was the main approach. He suggested a three-tier system of local government with district as the principal unit of administration. The immediate effect of the above developments led to the formation of popular Ministries in 1937 and they undertook legislations to make the local bodies truly representative of the people. Unfortunately, however, the initial zeal of the Ministries to make these institutions popular was jeopardised with the outbreak of Second World War in 1939. The period between 1939 and 1946 was looked as a dark period in the history of local government.

In spite of adverse developments in the arena of the local government, the idea of Panchayat remained as a vital factor and also as a strategy of mobilisation in the struggle for independence. Mahatma Gandhi viewed the Panchayats as a '*swadeshi*' institution and argued that 'Village Organisation' meant the organisation of the whole of India, as much as predominantly rural.

With such a conception of the place of Panchayats in our political system, the main question which came up after India got independence was, whether this situation should have a place in the new Constitution or not? Unfortunately, the Republic Constitution did not mention the Panchayat of the Gandhian notion. The Constituent Assembly debates reflect the dual picture of the importance of Panchayat in the Constitution. Those who favoured had considered Panchayats as schools of democracy and as instruments of village uplift, and those who opposed it displayed contempt for our villages and village democracy. Ultimately, the overall feeling of the members was for the inclusion of village Panchayats in Article 40 under the Directive Principles of the Constitution. The Directive Principles were only persuasive, despite the working, and did not compel the State to take steps to promote Panchayats. Commenting on the importance of Panchayats in the Constitutions, Henry Maddick observes that the "Panchayat development under the Constitutions has had three main aims: to foster the involvement of individuals throughout the nation in the process of democratic government; to gain the villagers participation in national development from the village level upwards; and to lessen the burden of State administration through decentralisation"<sup>9</sup>.

### **1.2.1 Post-Independence Period**

The post-independence phase of Panchayati Raj Institutions is marked with significant developments. In an attempt to usher in socio-economic and cultural transformation in the country side, in 1952, the Government of India had launched a comprehensive programme of Community Development Programme (CDP) encompassing almost all activities of rural development; however, the programme could not make much headway in fulfilling the dreams of the rural masses. In order to examine the causes for its failure, the Government of India in 1957 had constituted a high power study team headed by Balwantrai Mehta, a Member of Parliament. The team observed that the failure of the CDP was due to the conspicuous absence of people's participation. In order to secure participation, the team suggested that 'a set of institutional arrangement' would have to be created to make participation meaningful and effective. This resulted in the creation of a 'three-tier' system of PRIs to organise and manage the rural development activities. Thus began a new experiment in the sphere of rural development through the participation of people. The recommendation favouring

democratic decentralisation accelerated the pace of constituting PRIs in the States. By 1959, all the State had passed Panchayat Acts and by mid 1960s, Panchayats had reached all the parts of the country. The framework of the new institutional arrangement comprised 'Village Panchayats (VPs)' at the base, 'Panchayat Samitis (PSs)' at the middle and 'Zilla Parishads (ZPs)' at the apex levels.

Studies conducted in different States have revealed that though the ideals and basic objectives of these institutions were identical in nature, their powers, mode of representation of the people and the nature of inter-relationship among them were not uniform. For instance, of the three tiers, the Panchayat Samiti was considered as the principal body by majority of States, but States like Gujarat and Maharashtra recognised 'district' as the principal unit.

The growth of PRIs during the post-independence period can be seen in three phases: first phase 1959 to 1966; second phase 1967 to 1976; and third phase 1977 to 1986. A similar periodisation was made by Ashok Mehta Committee, namely, the phase of ascendancy (1959-1964); the phase of stagnation (1965-1969); and the phase of decline (1969-1977). Commenting on the performance of PRIs during these phases, the Committee records, "A number of developments in the past have conspired to undermine the Panchayati Raj structure and made them ineffective"<sup>10</sup>.

The appointment of the Ashok Mehta Committee in 1977 did bring new thinking in the concepts and practice of Panchayati Raj. The committee envisaged a role for the PRIs, such that they would under take democratic development management under conditions of rapid changes, continuous growth and sustained innovations in all spheres of rural life. With this objective in the background, the committee recommended a PR institutional structure consisting of a Zilla Parishad, Taluk Samiti and Mandal Panchayat. In order to use planning expertise and to secure administrative support, the district was suggested as the first point of decentralisation below the State level. Based on its recommendations, some State has made attempts to incorporate them with a view to strengthening their existing Panchayati Raj structure.

In order to consider ways to reinvigorate and revitalise Panchayats, the Government of India had appointed G.V.K. Rao Committee (1985) and L.M. Singhvi Committee (1986). The G.V.K. Rao committee recommended to make 'district' as the

basic unit of planning and also favoured holding of regular elections to the Panchayat institutions. The L.M. Singhvi committee recommended for devolving more financial resources to Panchayats so as to make them more viable. The committee viewed Panchayats as the base for democratic and republican operations of the nation.

### 1.2.2 Recent Efforts

The amendment phase began with the 64<sup>th</sup> Amendment Bill (1989), which was introduced in Parliament for constituting Panchayats in every State at the village, intermediate and district levels. It proposed that the Legislature of a State could by law endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government. This bill was the brain-child of the late Rajiv Gandhi, who strongly believed in strengthening Panchayats by giving them Constitutional status. Unfortunately, though the Bill got a two-thirds majority in the Lok Sabha, it was struck down in the Rajya Sabha on October 15, 1989 by just two votes. The next government headed by V.P. Singh also made an abortive effort to provide Constitutional status through the introduction of 74<sup>th</sup> Amendment.

Notwithstanding the above developments, the government declared its commitment to the philosophy of 'power to the people' and for the purpose to provide much needed constitutional status to Panchayats. The then Congress-I Government headed by P.V. Narasimha Rao initiated the 73<sup>rd</sup> Amendment to the Constitution in 1991. A comprehensive amendment was introduced in the form of Constitution (72<sup>nd</sup> Amendment) Bill in September 1991, which was subsequently referred to a Joint Select Committee of the Parliament in December 1991 for detailed examination. Finally, after including necessary amendments, the Amendment was passed with near unanimity in the Lok Sabha on December 22, 1992 and in the Rajya Sabha on the December 23, 1992. The Bill got the President's assent on April 20, 1993 and the Constitution 73<sup>rd</sup> Amendment Act came into effect from April 24, 1993.

The Amendment provides for certain far reaching steps to strengthen Panchayats. Article 243(G) thus recognises Panchayats as 'institutions of self-government' with prime responsibilities of promoting economic development and ensuring social justice. With this feature, Panchayats have come to stay as integral part of our constitutional polity. The Amendment envisages the establishment of uniform three-tier system of strong,

viable and responsive Panchayats at village, intermediate and district levels. The Amendment has also laid down necessary guidelines for the structure of Panchayats, composition, powers, functions, devolution of finances, regular holding of elections, reservation of seats for the weaker groups including women, and authority positions in favour of weaker sections; an attempt at expanding the social base of the Panchayats. With such a blue-print, the Amendment has been hailed as a revolutionary step towards establishing grassroots democracy; specifically it has given Constitutional guarantee for people's participation and self-governance. In order to translate the above into reality, the State Governments have been given necessary freedom to feed 'flesh and blood' to the framework provided by the Amendment.

### **1.2.3 Post-Amendment Phase**

The purpose of this section is to see to what extent the blue-print provided by the Amendment has become a reality. To begin with, there was a positive response from the States since almost all the States had passed legislation in conformity with the provisions of the Amendment, to establish Panchayats at village, Taluk / Block and at district levels. For the first time in the history of Panchayati Raj system, a high degree of uniformity has been conferred on Panchayats, mainly in terms of structure, composition, powers and functions. However, there is some degree of leeway with regard to the devolution of financial resources, since the pattern of devolution, based on the recommendations of the respective State Finance Commissions (SFCs), vary across States. Further, smaller States having less than 20 lakh populations may opt for two-tier system as against three-tier system of Panchayati Raj.

### **1.2.4 Constitutional Amendment**

By the end of 1988, a sub-committee of the consultative committee of Parliament under the chairmanship of P.K. Thungon made recommendations for strengthening the Panchayati Raj system. One of its important recommendations was that Panchayati Raj bodies should be constitutionally recognised.

It was against this backdrop that on 15 May 1989 the Constitution (64<sup>th</sup> Amendment) Bill was drafted and introduced in Parliament. By and large, it was modelled on the Bill (drafted by L.M. Singhvi) appended to the Ashok Mehta committee report. Although the 1989 bill in itself was a welcome step, there was serious opposition

to it on two basic grounds and due to its political overtones. These are: (a) the Bill overlooked the States and was seen as an instrument of the centre to deal directly with the PRIs, and (b) that it was imposing a uniform pattern throughout the country instead of permitting individual States to legislate the details, keeping in mind the local circumstances.

Although the Constitution (Sixty-Fourth Amendment) Bill got a two-third majority in the Lok Sabha, in the Rajya Sabha on 15 October 1989 it failed to meet the mandatory requirement by two votes. The National Front Government introduced the 74<sup>th</sup> Amendment Bill on 7 September 1990 during its short tenure in office but it was never taken up for discussion. In September 1991, the Congress Government under Narasimha Rao introduced the 72<sup>nd</sup> (Panchayats) and 73<sup>rd</sup> (Nagarपालikas) Constitutional Amendment Bills. They were referred to a Joint Select Committee of Parliament. The Lok Sabha passed the bill on 22 December 1992 while the Rajya Sabha passed it the following day. Following its ratification by more than half the State Assemblies, the president gave his assent on 20 April 1993, and the act was brought into force by a government notification on 24 April 1993 as the 1992 Constitution (Seventy-Third Amendment) Act.

The main features of the Constitution (Seventy-Third Amendment) Act are:

1. Panchayats will be institutions of self-government.
2. There will be a Gram Sabha for each village or group of villages comprising all the adult members registered as voters in the Panchayat area.
3. There shall be a three-tier system of Panchayats at village, intermediate block/taluk and district levels. Smaller States with population below 20 lakhs will have the option not to have an intermediate level Panchayat.
4. Seats in Panchayats at all the three levels shall be filled by direct election. In addition, chairpersons of village Panchayats can be made members of the Panchayats at intermediate level and chairpersons of Panchayats at intermediate level can be members of Panchayats at the district level.
5. Members of Parliament (MP), Member of Legislative Assembly (MLA) and Member of Legislative Council (MLC) could also be members of Panchayats at the intermediate or the district level.

6. In all the Panchayats, seats would be reserved for Schedule Castes (SCs) and Schedule Tribes (STs) in proportion to their population. Offices of the chairpersons of the Panchayats at all levels shall be reserved in favour of SCs and STs in proportion to their population in the State.
7. One-third of the total number of seats will be reserved for women. One-third of the seats reserved for SCs and STs will also be reserved for women. One-third offices of chairpersons of Panchayats at all levels shall also be reserved for women.
8. State legislatures have the liberty to provide reservation of seats and offices of chairpersons in Panchayats in favour of backward classes.
9. Every Panchayat shall have a uniform five year term and elections to constitute new bodies shall be completed before the expiry of the term. In the event of dissolution, elections will be compulsorily held within six months. The reconstituted Panchayat will serve for the remaining period of the five-year term.
10. It will not be possible to dissolve the existing Panchayats by amending any act before the expiry of its duration.
11. A person who is disqualified under any law for election to the legislature of the State or under any law of the State will not be entitled to become a member of Panchayat.
12. An independent Election Commission (EC) will be established in the State for superintendence, direction and control of the electoral process and preparation of electoral rolls.
13. Specific responsibilities will be entrusted to the Panchayats to prepare plans for economic development and social justice in respect to 29 subjects listed in the Eleventh Schedule. The 74<sup>th</sup> Amendment provides for a District Planning Committee (DPC) to consolidate the plans prepared by the Panchayats and Municipalities.
14. The Panchayats will receive adequate funds for carrying out of their functions. Grants from State Governments will constitute an important source of funding but State Governments are also expected to assign the revenue of certain taxes to the

Panchayat. In some cases, the Panchayat will also be permitted to collect and retain the revenue it raises.

15. In each State a Finance Commission will be established to determine the principles on the basis of which adequate financial resources would be ensured for Panchayats.

Thus the journey from the “local self-government” idea of Lord Ripon to the “institutions of self-government” concept in the 73<sup>rd</sup> Constitutional Amendment took more than a century. Thus evolution in the federal polity of the country must be specially underlined.

For the Panchayati Raj Institutions to function as institutions of self-government, the essential prerequisites are: (a) clearly demarcated areas of jurisdiction (b) adequate power and authority commensurate with responsibilities (c) necessary human and financial resources to manage their affairs, and (d) functional autonomy within the federal structure. Since the Constitutional Amendment opens possibilities for fulfilling these conditions the new Panchayati Raj must be seen as “third-tier of governance”.

### **1.3 Objectives of the Study**

The study has the following major objectives:

1. To study the nature and sources of ‘Panchayati’ finances including the existing structure of grants-in-aid of the ‘Panchayati Raj’ bodies.
2. To identify factors responsible for poor mobilization of resources by Panchayats in West Bengal.
3. To study the pattern and trends in the expenditure of ‘Panchayati Raj’ bodies.
4. To examine how funds are being utilized by the Panchayat leaders in the task of rural development.
5. To make a comparative study of revenue and expenditure trends and utilization of finances by Panchayats in Darjeeling and Dakshin Dinajpur districts in North Bengal.
6. To explore the additional possibility of creating some other sources of revenue and suggest measure for strengthening the finances of the PRIs.
7. To examine the importance of PRIs in the changed socio-economic situation in the wake of liberalization.

#### **1.4 A Brief Review of Literature, Work Already Done in the Area of the Study**

Studies on the finances of PRIs in West Bengal are few. But a good number of studies have been done in others States of India. A brief review of relevant literature is done below.

Report of the Study Team on Panchayat Raj Finances [1963] <sup>11</sup> 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.

Bhattacharya [1968] <sup>12</sup> in his study of 50 Gram Panchayats and 40 Anchal Panchayats in North Bengal under taken in 1967-68 demonstrate that lack of funds hampers the working of the ground level peoples' institutions. Among other things, it is observed that the Gram Panchayat members are not influential enough to raise significant public contributions and there is no record of direct grants paid by the Zilla Parishads to the Gram Panchayats. Even on the receipts side the annual income of Gram Panchayats is very meagre and evens this amount is not well spent.

Chokshi [1971] <sup>13</sup> has conducted several studies and found that in our existing system of Panchayati Raj, a village Panchayat has to act as an effective instrument of local planning, defence and administration. The Panchayats need adequate resources to successfully discharge these functions. This case study in Gujarat examines the extent of Government resources reaching the local bodies to enable them to finance the existing and future functions, the necessity of a proper matching of obligations and resources and also the possibilities of a Panchayat achieving minimum or progressive or maximum financial liability. The report also gives the details on type and extent of resources

mobilized under first three plans, future trends on the same and Govt. policy in this regard.

Muthayya [1972] <sup>14</sup> stressed that behaviour of the taxpayers is of great importance in mobilizing the local resources for development and it also helps in planning for peoples' participation. This study undertaken in three village Panchayats in East Godavari district, Andhra Pradesh (which reported cent per cent Panchayat tax collection for consecutive four years) tries to probe into the socio-psychological dimensions of the development of both the individual and the village, which might have facilitated this. The study focuses on: (a) awareness of attitude to the Panchayats, and development agencies, (b) peoples' potentialities to appreciate and participate in the process, and (c) the functioning of Panchayats. It is concluded that performance of the village, in terms of providing amenities to the village, new innovations in agriculture and other such positive things have contributed to the process of tax payment.

Iyer [1973] <sup>15</sup> found that one of the unsolved problems of Panchayati Raj is the paucity of financial resources, which can be solved permanently only when reforms in the existing State-Panchayat financial relations are made. State-Panchayati Raj financial relations have two aspects, namely, (a) the financial relations between the State Governments and Panchayat bodies, and (b) between the three tiers of Panchayat system. The author, examining both the aspects of the problem, concludes that reform or re-examination of not only the existing Union-State financial relations but also the State-Panchayati Raj financial relation is the need of the hour.

Nicholson [1973] <sup>16</sup> in his study discussed that in 1960 Government of India decided to direct its rural development efforts through two new local institutions, viz., system of cooperatives to mobilize and coordinate the economic activities of individual farmers and Panchayati Raj which would serve to raise resources for public work, community development project and other local activities. This study explores three discrete bodies of literature – village power studies, studies of development administration, and the work of agricultural economists to examine the success and failures of the new approach to rural development. Although the study is concerned with both cooperatives and Panchayati Raj, the major emphasis is on Panchayati Raj.

Bhatnagar [1974] <sup>17</sup> in his book has discussed an empirical study of Panchayati Raj in one district of Himachal Pradesh. The study focuses a socio-economic background of the leaders manning these institutions. Besides, the study deals with operational aspects like decision-making process, internal organization, peoples' participation, relationship of one tier with other tiers and of these three tiers with various agencies of the State Government, financial resources, extent of association of statutory and non-statutory bodies at village level. Study is based on secondary data and personal observation, interviews and area sample consisted of Zilla Parishads, Panchayat Samitis and Gram Panchayats.

Jain [1976] <sup>18</sup> in his study examines in detail the structure and functioning of Gauhati Mahakuma Parishad and its constituent bodies in Assam, pattern of finances, people's participation and attitude of people with respect to the system and its functioning. It reveals that the staffing pattern, financial position and the performance of this Panchayat body is unsatisfactory. People's participation is below the desired level. Close interaction between State level and local level organizations, improving the financial position of local bodies through resource mobilization, imparting training to the officials are the suggestions offered to improve the performance of Panchayati Raj Institutions.

Harichandran [1977] <sup>19</sup> in his article discussed that a Panchayat union is a cooperative federation of Panchayats in its area. This article analyses the change and growth in the pattern of revenue and expenditure at the pro novo Panchayat union of Tamil Nadu. This study reveals that government grants play a significant and vital role to the finances of the union, which shows lack of initiative in raising the local funds. Most of schemes of rural reconstruction-animal husbandry, fisheries, minor irrigation and village industry-remains only in theory.

Hooja [1980] <sup>20</sup> in his paper presents a broad functional approach to rural development. It is functional in the context of the area of an institution, whether it is a Gram Sabha or a Panchayat Samiti, Zilla Parishad or district administration. The author feels that the overall management and development of the local village lands, water resources, forest and pastures, mineral resources and the development of agricultural and

allied activities should be entrusted to the care of local village Panchayats or a group of Panchayats.

Rao [1982]<sup>21</sup> in his study says that the village structure in Kerala is unique in the sense that villages are quite populous. Kerala has only Panchayats at the village level. The Kerala Panchayats Act, 1960, lists the obligatory and discretionary functions of Panchayats. A Panchayat is required compulsorily to levy in its area a building tax, a professional tax, a vehicle tax and a duty on certain transfers of property. He found that the duty on transfer of property is the largest single source of income to the Gram Panchayats the receipts from which mounted to Rs. 3.5 crores in 1979-80. Next is the income from house tax, which amounted to 18% of the total income (excluding grants) in that year. Receipts from the house tax increased from Rs. 61 lakh in 1967-68 to Rs. 311.77 lakh in 1979-80. The demand, collection, and balance statements need to be prepared in a rational manner. He mentions that the basic tax grant provided in the Panchayats Act has practically remained inactive. The village road maintenance grant accounts for about two-third of the total grant. The seven-point programme began with an allotment of about Rs. 11 crores during 1980-81. The establishment charges account for about one-third and the public works for about one-fifth of the expenditure of Panchayats. Finally, Kerala State Rural Development Board which has been quite active in providing water supply scheme, construction of market complexes, etc. for the Panchayats through institutional finance raised by it.

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Rao [1983]<sup>22</sup> in his article elaborates on various provisions for financial inflow under Tamil Nadu Panchayat Act, to Panchayat union councils, including local revenues, statutory grants, and non-statutory grants. It also analyses the receipts and expenditure of one of the Panchayat unions going into various nuances of the issue.

Bhowmik [1984]<sup>23</sup> in his study provides a picture of the outcome on the creation of the Zilla Parishads with particular reference to West Dinajpur, and an evaluation of its administrative, social service, development and agency functions. Among the salient feature of this Zilla Parishad is: good representation of Scheduled Caste and Tribe and utilization of powers delegated to them effectively. The study also highlights how implementation of decisions depends on synchronization and orchestration of the highest order.

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Pillai [1986] <sup>24</sup> examined the functions and finances of Panchayats in Kerala and identifies the shortcomings in the existing set up. It also proposes alternative criteria for fiscal transfers between the State and the Panchayats on the basis of 'need' and 'fiscal capacity'.

Lieten [1988] <sup>25</sup> in his study of the socio-economic background of the Panchayat leaders in one of the blocks of Birbhum district confirms that a new type of leadership has come to dominate the stage at the lower levels in the system of political devolution. Poor peasants and agricultural labourers, inclusive in them Scheduled Castes and Tribes, have come to the forefront. It is also noted that women have not increased their visibility in the Panchayat leadership.

Sedam [1989] <sup>26</sup> in his article told that as per the provisions of Panchayati Raj, Panchayat Institutions are empowered to levy a number of taxes. But in practice full utilization is not made. This study examines the financial aspect in relation to the performance of the Panchayats in Karnataka. The author brings out the income-expenditure data for the years 1971-76 and shows that one of the important aspects of the rationality, i.e., the maximum utilization of given resources for maximum gain is not fulfilled. Comparisons with the local self-government of the United States of America (USA) have also been drawn.

Basu [1989] <sup>27</sup> in his article pointing to the two alternative approaches to Panchayati Raj –(a) which choose to begin by accepting the existing unequal distribution of land ownership and (b) which lays its emphasis on land reform – this article highlights the success of second approach adopted in West Bengal.

Ashirwad [1989] <sup>28</sup> in his article brings to fore the resource deficiency of Panchayats in Andhra Pradesh. Observing that there are as many as 178 Panchayats in the State with less than Rs. 500 annual income, it is noted that as long as the powers of rural local authorities are continued to be nominal and resources meagre, the Mandal Panchayat system will have low profile.

Mathew [1989] <sup>29</sup> in his article presents a survey of the States where concrete steps have been taken to rejuvenate the local self-government. He pleads that local level institutions should not exist at the will and pleasure of the government in power. They

should rather be autonomous and guided by the larger interests of the local community within the overall framework of national interest.

Girglani [1993]<sup>30</sup> examined the various dimensions of raising resources by the Panchayats and suggests certain measures for augmenting these resources, arguing in the process, against investing Panchayats with powers to tax and mounting a plea for greater devolution of intended resources to the States from the Centre, in order that the States may devolve more resources to the Panchayati Raj Institutions. Also he found that the pattern of Panchayati Raj (PR) finances by and large, in most of the States is that power of levying certain taxes is vested mostly in the Gram Panchayats, except in a few cases like Gujarat and Maharashtra, where it is vested in respect of some taxes in the intermediate tier and the district tier.

Datta [1995]<sup>31</sup> in his study examines the pattern of financing Panchayats in West Bengal and, on that basis; assess their efficacy as institutions of self-government. Financial data from the Panchayats have been collected from three districts in respect of the Zilla Parishads (ZPs), Panchayat Samitis (PSs), and Gram Panchayats (GPs). The three districts are 24-Parganas (south) and Medinipur in the southern, and Jalpaiguri in the northern parts of the States. The case study is presented in four sections: (a) financial flows; (b) grants system; (c) own revenue prospects; and (d) institutional decentralization. Based on the case study and financial performance of the PRIs in the State, the author attempts to sum-up the findings on the functioning of the Panchayats in West Bengal.

Panth and Bohra [1995]<sup>32</sup> in their article analyse: (a) recommendations made by various committees on PRI finances, (b) existing instruments of inter-governmental financial transfers to PRIs, and (c) various provisions made in the 73<sup>rd</sup> Constitutional Amendment Act. They observed that the Panchayati Raj system can be viewed from two dimensions, i.e., economic and political. In decentralization, the economic dimension is important, since finance is essential for effective functioning of the PRIs. Political influence can be noticed in the discharge of financial functions by the PRIs. Also, they observed the local bodies were left with inadequate resources. Given the existing tax base and tax rates at their disposal, the fiscal capacity of PRIs was limited. Due to uneven distribution of resources and existence of regional economic imbalances, there is a need

for evolving a system of prioritisation and organisation of a powerful transfer of funds on a differential basis.

Oommen and Datta [1995]<sup>33</sup> in their study attempted to put focus on Panchayati Raj Finances in the context of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments. They divided their book into two sections; section-I reviews the existing structure of Panchayat Finance in a historical context, and discusses the important principles and problems of inter- governmental transfers in the Indian federal polity in the context of the Constitutional Amendments and the 10-th Finance Commission's recommendations and section-II focuses attention on the conceptual and operational problems before the State Finance Commissions in relation to Panchayat functions and finance. The basic objective of this book is to review the existing structure of Panchayati Raj finances, to review the conformity legislations passed by the various State legislatures and to outline some of the conceptual and operational issues of inter-governmental transfers with special reference to SFCs.

Abraham [1996]<sup>34</sup> in his article aimed at presenting a framework for the financial resources planning of the Panchayats and local bodies giving various actual and potential sources of financial resource flow. The analysis gives two broad sources of resource flow i.e. the Panchayats own resources and the resource support from the State Government. He found that the Panchayats own resources may include Balance from Current Revenue (BCR), additional resource mobilization, contribution of Panchayat level enterprises etc. and the State Government support to Panchayats may include Open Market Borrowings (OMB), negotiated loans from Central and State Finance Commissions etc.

Ghosh [1996]<sup>35</sup> in his article has made a study of the socio-economic background of Gram Panchayat (lowest tier) members of Burdwan district in West Bengal. In Burdwan district there are 278 Gram Panchayats. The number of Gram Panchayat members is 5409 and the study has been conducted on 5361 members' i.e. 99.11 per cent of the total members. The author finds that there is a very high negative correlation between the level of education and poverty in the weaker sections of Gram Panchayat. Also, he found that, the educational status of the Gram Panchayat members and the occupational pattern of the Gram Panchayat members confirms the adequate representation of the poor people in the rural power structure. The study concluded that

works executed under Jawahar Rozgar Yojana (JRY) in West Bengal are remarkably poor-oriented compared to the rest of India as a whole.

Aziz [1998] <sup>36</sup> in his article have seen an upsurge of interest in decentralized governance and planning. According to him, two underlying factors have been at work – one, the failure of the macro governance and planning system to meet needs and aspirations; and two, the desire of the people to manage their own affairs and meet their needs by tapping local resources and local wisdom. He found that the Panchayat bodies had come to be dominated by rural elites, especially the landed gentry, who happened to be members of the dominant communities. Members of the weaker section – SCs, STs, and Backward Classes – hardly had access to Panchayat membership. Also, he found that the Constitution Amendment Act, 1992, sought to right these wrongs. It laid down guidelines for Panchayat structure, composition, powers and functions.

Rajaraman and Vasishtha [2000] <sup>37</sup> examined the impact of State-local grants on tax effort of rural local governments (Panchayats) for Kerala State using data for 1993-94. After controlling for tax capacity they find a negative impact on own tax revenue of lump sum 'Untied' grants that are predictable and unvarying. Using the econometric tools such as regression, they concluded that the reduction in own tax revenue is the result of a selective slackening of tax effort. The post - grant pattern of tax incidence will therefore be less transparent than the nominal pattern, less preserving of voter preferences, and possibly driven by corruption towards greater regressively. The data contradicts the flypaper effect and also theories of fiscal effects of ethnic fragmentation.

Bohra [2000] <sup>38</sup> in his paper has shown that there are different opinions for and against decentralization. In India, the 73<sup>rd</sup> Amendment to the Constitution is a major step in this direction. It provides for uniform three-tier structure of the Panchayat and specification of areas of responsibility of Panchayats at the three levels. Accordingly, a large number of functions are of developmental nature and assigned to the village levels of Panchayats. According to him, there is a large scale overlapping of functions/areas of responsibilities amongst the levels of PRIs, and also between the PRIs and the agencies. In his paper, an endeavour has been made to point of the overlapping of areas of responsibilities. Since no principle has been adopted for the assignment of these functions. Therefore, for the smooth functioning of the PRIs the overlapping should be

brought down to the minimal. For the effective delivery of public goods and services the minimum selection criteria/principle should be kept in mind at the time of allocation of powers and functions to the PRIs.

John [2000]<sup>39</sup> in his paper discussed about the financial position of Panchayats in Kerala. The author shows how introduction of people's participation in the planning process has helped in bringing about marked improvement in the financial position of PRIs. According to him, through undertaking implementation of projects catering to the felt needs of people, these bodies have acquired functional, financial and administrative autonomy to mark a new phase. He observed that, Article 243(H), which refers to empowerment of Panchayats by the State to levy taxes, duties, tolls, etc., is only an enabling provision. The actual devolution rests upon the State Government and the net result is that taxes are assigned to local bodies and they do not have independent powers of taxation. The only consolation is constitution of State Finance Commission (SFC) every five year. But, again, the role of the SFC is limited, as it cannot create resources but can only make recommendations regarding sharing of resources between various levels. Finally, he noticed that the Gram Panchayat is the only tier that has been given taxation powers and thereby enabling it to generate its own resources.

Mohanam [2000]<sup>40</sup> stressed that mobilization of available local resources at the Block; Panchayat and Village levels can play a big role in building up the country's own resources for development. This study has been made in Ulloor Panchayat to examine the nature of resource mobilization effort by the Panchayat in the implementation of projects formulated under people's plan. The first part of this study examines which sector is lagging behind in resource mobilization by taking the estimated outlay of resources for the various projects and the resources actually rose. The second part of the study is confined to the problems related to resource mobilization, the reasons for deviation of resource mobilization from targets and the impact of people's plan on the people, by obtaining views of the local leaders, elected representatives and Panchayat officials and beneficiaries.

Giri and Sau [2000]<sup>41</sup> in their article highlighted that, two important, and not unrelated, recent milestones in the history of planning and development of India are economic reforms of 1991 and the 73<sup>rd</sup> and 74<sup>th</sup> Amendment Acts of the Constitutions of

India, 1992. It directs the State governments to constitute the State Finance Commissions for recommending the principles that will guide the allocation of financial resources from the state government to the local planning bodies. Their case study relates to the finance, particularly reviews, of four Gram Panchayats in the Hooghly District of West Bengal. Four Gram Panchayats – two each from Goghat-I and Goghat-II blocks of Hooghly district have been purposively selected for their study. Data pertaining to different heads of receipts and expenditures are collected from the respective offices of four-Gram Panchayats, namely Bangai and Hazipur under Goghat-II block and Raghubati and Goghat under Goghat-I block for sixteen years from 1983-84 to 1998-99. They used regression analysis to estimate the Compound Annual Growth Rates (CAGRs) of development and own receipts and expenditures. They observe that the post-economic reform period for their sample Gram Panchayats is characterised by deceleration in growth rates of development receipts and acceleration in respect of own receipts. Per capita development and own receipts of Panchayats also follow similar patterns. Percentages shares of development receipts of sample Gram Panchayats during the post-reforms period declined while those of own receipts showed an upward trend. Fiscal autonomy, which deteriorated during the pre-reforms period, has started improving during the post-reforms period. However, dependence of Gram Panchayats on higher-level government units still remains high. There has been an economy in expenditure on establishment per unit of development expenditure during the period following economic reforms in 1991.

Vithal [2001] <sup>42</sup> in his study focused the management of Panchayati Raj finances in Andhra Pradesh. The basic objectives of this study were to study the pattern of PR, to examine the resource base of the PR in the State and to identify factors responsible for poor mobilization of resources. The study was conducted in Medak district, which is neither advanced like East-Godavari or West-Godavari nor backward like Adilabad or Nizamabad districts, but an average district on the basis of various indicators of socio-economic development in the State of Andhra Pradesh. According to him, the taxation powers are exclusively given to the Gram Panchayats, they are not in a position to mobilize their own resources may be due to the poor living conditions of the people. The taxes and fees collected by the Panchayats are few in number. The PRIs, by and large,

depend upon the State government for grants-in-aid. And there is belated release to the grants-in-aid by the State government due to resource crunch. The expectations of the people are high for better amenities and services. According to this study, the Panchayats have to properly tap their resource base to provide better amenities and services to the people.

Bhattacharya [2002] <sup>43</sup> in her book has explained the interface between two apparently contradictory processes of democratic decentralization - the avowed goal that Panchayat seek to achieve and democratic centralism. She has attempted to find out the reason for gradual change in the people's attitude towards Panchayats. It is a well-known fact that Panchayats in West Bengal have endured long. Especially since 1978 the Panchayats have worked as the locomotives for change in rural Bengal. They earned a very good reputation about the implementation of various rural development schemes and land reform programme. Empirical data for this study were collected from two Gram Panchayats covering two separate districts of West Bengal. One is Jaugram Gram Panchayat under the jurisdiction of Burdhaman Zilla Parishad while another is Raghunathpur Gram Panchayat under the jurisdiction of Hooghly Zilla Parishad. The profile of the Panchayat leadership was examined and analysed with respect to six variables, namely: age, sex, caste, education, occupation/profession, and party affiliation. Although income is another important variable, it was ignored in this study. Panchayat's role in rural development was found to be quite exemplary. Panchayats, to a large extent, were successful in promoting social welfare, rural infrastructure, providing employment and improving the overall conditions of the people of rural West Bengal. Due to increased facilities provided by the PRIs, the agricultural productivity also went up. According to Centre for Monitoring Indian Economy (CMIE) Report, West Bengal recorded the highest growth rate of food grains production in India between 1981 and 1991. In 1991-92 West Bengal became the highest producer of paddy (11.76 million tonnes). According to the author, all this was to a large extent possible due to better farming facilities, irrigation facilities as well as a support services rendered through PRIs. The book deals with the actual involvement or participation of elected representatives as well as the common people who constitute the electorate. Without active participation of the people and their elected representatives in decision-making, the objective of

democratic decentralization cannot be successfully met. Based on the case study and overview performance of the PRIs in the State, the book has made several recommendations for changing the structure and functioning of the institution.

Babu [2004] <sup>44</sup> in his working paper sketches the fiscal status of PRIs in Karnataka. According to him, Panchayats to be called self-governing institutions, some degree of fiscal autonomy is needed, among other factors. The analysis of this aspect in the context of Karnataka State, however, reveals certain disturbing trends. Overall, the Panchayats in the State have very little fiscal autonomy. The fiscal provisions incorporated in the State Panchayat Raj Act have centralized tendencies. He observed that, the locally raised revenues are negligible, and thus largely depend on government grants. Of late, the transfers from the State to the Panchayats have been declining. He first describes the legislative provisions both at the Central and State levels, coupled with field reality, and then draw comparisons of the experiences of Karnataka with those of neighbouring States and suggest policy measures. The analysis has been carried out based on qualitative and quantitative information gathered from various sources, the latter is based on secondary sources of information and the former on observations and discussions held with the functionaries of Panchayats. In the paper, analysis on the SFC appears in different places and this refers to the 1996 report. Further, the paper largely deals with the revenue aspect of the finances.

### **1.5 Research Hypotheses**

In our study we have tested the following main hypotheses:

1. The role of taxation as a fiscal instrument for financing rural development undertaken by the PRIs is strictly limited.
2. Socio-political institutions are responsible for poor financial conditions of PRIs.
3. New sources of revenue for Panchayats can be created by introducing 'quid pro quo' principle.
4. The present financial system of PRIs is not conducive for accelerating the pace of rural economic development in the State of West Bengal.
5. The performance of West Bengal PRIs is far from satisfactory.
6. Post liberalization era calls for taking a new look at the PRIs.

## 1.6 The Conceptual Framework

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.

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 enthusiastic 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, 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 Santhanam Committee (1963), 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.

Another committee (Ashok Mehta Committee: 1977), after evaluating the performance of PRIs, 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 level.

The G. V. K. Rao Committee (1985), 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.

The L.M. Singhvi Committee in 1986 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 impart “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 73<sup>rd</sup> and 74<sup>th</sup> Amendments to the Constitutions 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 73<sup>rd</sup> 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 73<sup>rd</sup> 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 subject of local government finances or Panchayat finances has been one of the neglected areas in the literature on Indian public finances. More research is needed in this area in the changed socio-economic situation in the wake of liberalization of the Indian economy and especially after the 73<sup>rd</sup> Constitutional Amendment.

## 1.7 Justification of the Study

The basic justification for undertaking the study is:

First, the Panchayats in North Bengal have very meagre income. Income of the Panchayats is not well spent. Panchayats have made very little efforts to raise revenue. Panchayats have been facing various socio-economic problems in most of the cases when they are making attempts to raise resources through internal sources.

Secondly, the present investigator was interested to know the position in these regards during his study period. It was believed that such a study would throw much light on such an important question like the Panchayats finance in these backward regions like North Bengal. North Bengal is a typically backward region consisting of six districts viz. Malda, Dakshin Dinajpur, Uttar Dinajpur, Darjeeling, Jalpaiguri and Cooch Behar in the State of West Bengal.

Thirdly, attention of planners and the policy-makers may be drawn to the fact that, if found desirable findings, observations, remarks, conclusions of the present study may be utilised by them for action programmes to be under taken with regard to the improvement of the nature and extent of the Panchayat finance for this region of West Bengal.

Fourthly, attention of future researchers, individual and or institutions may be drawn to test the strength and weakness of the findings, observations, remarks, conclusions, etc. made in this study through in-depth studies and there is, indeed, much scope for them in this regard.

Fifthly, the present researcher is born and brought up in one of the districts (Dakshin Dinajpur) in which the field survey has been undertaken and another district (Darjeeling) where he has been living at present since the last ten years for his higher education. Familiarity of the researcher with the land and people and institutions of the districts have been helping him in carrying out an in-depth and meaningful research on the issue at hand.

Sixthly, since a few studies have been done on the finances of PRIs in West Bengal in general and no study has been done on finances of PRIs of Dakshin Dinajpur and Darjeeling districts in particular. The study is expected to make an important contribution to fill the research gap in this area.

The above expectation and hope taken together may indicate that the present study is very important and it has much significance.

### **1.8 Scope of the Study**

Finances of the two Gram Panchayats in the district of Darjeeling and the two Gram Panchayats in the district of Dakshin Dinajpur of West Bengal have been studied in-depth. The study has been restricted to two Gram Panchayats from each district because of a number of limitation including paucity of fund, time etc.

The study attempts to cover the following points:

- Sources of Panchayat finance with a critical assessment of each of the sources identified.
- The nature and extent of the efforts made by the Panchayats to mobilise resources from the domestic field and the reaction of the people to such efforts.
- How far and to what extent resources available to the Panchayats are sufficient enough to deliver the goods to the rural people?
- The role of external finance, e.g., government assistance and institutional financial support etc. in financing developmental and routine works of the Panchayats.
- The manner and extent of utilisation of funds by the Panchayats and the pattern of expenditure made by them.
- The nature, extent and prospect of inter-governmental fiscal cooperation in the field of Panchayat finance.
- The scope and prospect of augmentation of resources of the Panchayats by their own efforts as well as through inter-governmental fiscal cooperation.
- The role of the Panchayats in the sphere of rural development particularly in respect of the weaker section and the developmental strategy to be devised for achieving growth with social justice.

### **1.9 Plan of the Present Study**

Chapter-I offers a theoretical framework of the study on the basis of which certain issues have been raised and a few hypotheses have been developed. The chapter also covers the following: objectives of the study, a brief review of literature, conceptual framework, and justification of the study, scope of the study, research methodology and

sampling design, collection of data, limitation of the present study and a lay out of the study have been discussed in detail in this chapter with a focus on 73<sup>rd</sup> Constitutional Amendment.

Chapter-II have provided an outline of the changes in the structure and functions of PRIs in West Bengal since independence with special attention to Gram Sabha, functions of Gram Panchayat, functions of Panchayat Samiti, powers and functions of Zilla Parishad, Sthayee Samitis, establishment of GP, PS and ZP, State Finance Commission, Planning and Implementation and West Bengal Panchayat Act, 1973 etc.

Chapter-III deals with the theoretical framework of Panchayati Raj finances in India as well as in West Bengal. In this chapter we also discuss the finances of PRIs of the major states of India. An evolution also made in financial arrangements of PRIs in West Bengal in the post-independent period with a focus on 73<sup>rd</sup> Constitutional Amendment and Eleventh Schedule.

Chapter-IV deals with the financial resources of Panchayati Raj Institutions in West Bengal. Here we have made a detailed analysis of financial resources of Gram Panchayat, Panchayat Samiti and Zilla Parishad.

Chapter-V makes an analysis of the utilization of funds obtained through various centrally sponsored schemes by the Panchayati Raj bodies in West Bengal. We have specially focused on the issue whether the full amounts earmarked for different purposes as a whole have been utilized or not and also examined how far funds have been utilized for the specific purposes for which those were allocated.

Chapter-VI deals with a case study of two Panchayat Samitis from Zilla Parishad of Dakshin Dinajpur district and two other Panchayat Samitis from the Siliguri Mahakuma Parishad of the Darjeeling district of North Bengal and tries to examine the issues we have mentioned in the foregoing chapters with reference to the performances of the Gram Panchayats selected for our study.

Chapter-VII has examined whether the PRIs at all the three levels have been able to fully exploit the sources assigned to them. Do they face any constraints towards fuller utilization of present (existing) sources of revenue? What other new sources can be explored for the augmentation of revenues?

Chapter-VIII offers a summary of the findings of the study and the concluding observations with a particular reference to the theoretical perspective of participatory rural development.

A select bibliography has been appended at the end to acknowledge the intellectual debts of the present investigator to the authors of some books, journal articles etc. from which he has developed insight for the present work.

### **1.10 Research Methodology**

The study is based on existing literature, secondary data and primary data collected through field survey, and therefore the analysis of the existing literature, secondary data and the primary data have been incorporated in the present study. For secondary data and literature we have made use of the library of the University of North Bengal (NBU); various offices like Zilla / Mahakuma Parishad, District Panchayat Office, Divisional Panchayat Office, Office of the Chief Planning Officer of the two districts as well as Gram Panchayat Offices and Block Development Offices of the two districts; the National Library, Kolkata; Library of the Centre for Studies in Social Sciences, Kolkata; Library of the District Collectorate of Dakshin Dinajpur and Darjeeling districts; Library of the State Institute of Panchayats and Rural Development (SIPRD), Kalyani, Nadia; Ministry of Panchayats and Rural Development, Kolkata; National Institute of Rural Development (NIRD), Hyderabad; National Institute of Public Finance and Policy (NIPFP), New Delhi and documents published by the Planning Commission, Government of India. On the other hand, the primary data have been collected by canvassing a questionnaire to the officials and non-officials of the Panchayati Raj bodies at various levels and also by administering a separate schedule to the voter-respondents in the study villages. We have used tables and diagrams to analyse data for evaluating the financial performance of PRIs.

The following major steps have been followed as part of the research methodology of this study.

#### **1.10.1 Area of the Study**

The area of the study has been the State of West Bengal in general and the districts of Dakshin Dinajpur and Darjeeling in particular.

### **1.10.2 Universe of the Study**

The universe of the study has been the State of West Bengal in India.

### **1.10.3 Sampling Procedure**

Dakshin Dinajpur district has eight Panchayat Samitis and Siliguri Mahakuma Parishad of Darjeeling district has four Panchayat Samitis. Out of eight Panchayat Samitis of Dakshin Dinajpur district and four Panchayat Samitis in Siliguri Mahakuma Parishad of the Darjeeling district, two Panchayat Samitis from Dakshin Dinajpur district and two other Panchayat Samitis from Siliguri Mahakuma Parishad have been selected randomly. And then one Gram Panchayat from each of the Panchayat Samitis has also been selected randomly. Thereafter, we have select randomly four villages from each of the Gram Panchayats. Then from the Below Poverty Line (BPL) list kept by the Gram Panchayat office we have selected 10 households randomly and 10 other households not belonging to the category of BPL have also been selected by us on a random basis. Thus, we have taken into consideration 320 households in total for the purpose of our study. Each of these households has been interviewed by us through administering questionnaire prepared by us to gather relevant information pertaining to our study. An attempt has also been made to interview 'Prodhans' of our sampled GPs. To be immune from any political bias, we have endeavoured to collect information from representatives of both parties in power as well as outside of it. An effort has also been made to interview the "*collector-sarkar*" of the selected GPs in order to gather information regarding Panchayat finances. For our purpose of collecting necessary information, we have contacted some other persons found to be fruitful for ascertaining certain necessary information regarding the functioning of GPs, which was found important to be incorporated into our study.

### **1.10.4 Units of Observation and Sample Size**

As noted above, the unit of observation is the household and the total size of sample is three hundred and twenty households, taking 160 households each from the district and Mahakuma Parishad.

### **1.10.5 Tools and Techniques of Data Collection**

Data have been collected by the researcher through personal interview with the respondents with the help of a questionnaire made for the purpose. We have also

consulted various books, journals, bulletins, articles, unpublished Ph.D. thesis etc. to collect relevant secondary data and information.

#### **1.10.6 Data Collection**

Data on the need, occupational and income pattern of the Gram Panchayat members/or Anchal members/Zilla Parishad/ Mahakuma Parishad members, financial resources of the AP/Zilla Parishad/Mahakuma Parishad, amount of revenue collection, grant paid by the government expenditure pattern of the GP/AP/Zilla Parishad/Mahakuma Parishad, monthly income, percentage of total income or amount spent on development, number of family units having land, percentage of population engaged in agriculture, percentage of literacy, number of school, employment, consumption pattern, the nature of utilization of fund, total population, caste/religious pattern and so on, have been collected on the basis of questionnaire. Data have been collected from the respondents on the issue whether they are ready to pay more taxes to Panchayat on a 'quid pro quo' basis, that is, whether they are willing to pay more taxes if in return they get benefits in terms of developmental expenditure.

#### **1.10.7 Data Processing**

After the collection of data, these have been processed for relevant statistical calculation manually by using calculator and also through computer.

#### **1.11 Limitations of the Study**

1. Various limitations pointed out in appropriate places appear to reveal that some conclusions, estimates, suggestions, etc. which have been arrived at are, to a certain extent, not based on adequate data, information, etc. and some of these may even be challenged due to methodological and conceptual lacuna to a certain extent. Every possible effort has, however, been made to minimise the effect of such a lacuna but the present investigator is not sure of his success in this regard.
2. Not always requisite data were available to enrich the contents of the present study. Particularly, very little data and information were available with regard to Panchayat Raj finances.
3. The findings were mainly applicable to sample Panchayat though these were selected through random sampling technique and therefore, may be considered representative of other Panchayats in the districts.

4. The data obtained for knowing the reaction of the rural people over the Panchayats finance were mainly from the head of the sample households. The reactions of the other members of the sample households were not known. However, the unit of investigation being the head of the household the essence of the study is not affected much.

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