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Questioning Panchayat Finance in India

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Abstract

The Government of India had decentralized political, administrative and fiscal powers to urban and rural local self-governing bodies. Fiscal decentralization leads to the empowerment of local governments but the decision power on expenditure is highly dependent on the source and nature of revenue that flows to the local govt. Low own revenue and poor accountability related to expenditure decisions form a vicious cycle in low-level equilibrium. What has been the overall progress in the devolution of powers to Panchayats? It has been found that the fiscal devolution is hampered due to the unpredictability of fund flows to PRIs and mobilization of own-source revenue is the only option to continue the implementation at the local level. There is a need to ensure transparency and accountability in respect of collection and expenditure of own source revenue of the Panchayat. Till now exercising expenditure control through budget mechanism is very weak at the Panchayat level. Thus, a separate budget volume (department wise and Panchayat wise) is required, which gives a complete picture of devolution of the fund for PRIs to prepare their budget. The revenue of PRIs has to improve to a decent level, through more tax assignment/ piggybacking central/state taxes or formula based transfer which encourages local revenue collection.

Keywords: *Panchayat Finance, Decentralization*

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Introduction

The Government of India had decentralized political, administrative and fiscal powers to urban and rural local self-governing bodies. With the 73rd and 74th amendments to the Indian Constitution, local self-government institutions have come to be recognized as vehicles of socio-economic transformation in India. Fiscal decentralization leads to the empowerment of local governments and is therefore absolutely inevitable in a democratic nation. As self-governing institutions, they require adequate authority and autonomy in the management of their revenue and expenditure. Delivery by local govt. is dependent on their freedom to decide on expenditure to be made & capacity to deliver/outsource. Further freedom to take decision on T expenditure is highly dependent on the source and nature of revenue that flows to the local govt. The expenditure decisions taken at higher level affect the decision making at the lower level. All tied funds flowing to PRIs for implementing central schemes have decisions on macro-issues taken at central level and operational decisions are left to local level – that narrows the freedom at local level to meet the local needs. Bulk of the fund available with PRIs being schemes related there is strong agency-centric fund utilization by the PRIs. The PRIs remain bogged down in managing agency works and there is little focus on own fund.

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The delivery of local government services can happen only with adequate finances available to them. The Local self- governments cannot become fiscally healthy unless they have a strong financial base with clearly defined sources of revenues. One crucial step towards this direction is to encourage the LSGIs to generate their own resources in a sustainable way to perform their statutory functions. Bur ffiscal accountability is positively influenced by hard budget constraint. In India the Panchayats are not subjected to such mechanism because funding is substantially from above. The budget constraint is faced by the higher tiers which allocate funds. At present funds are mostly received by PRIs from Union/State govt. as grant for implementing schemes and since people fail to relate the expenditure being made by the Panchayats with their tax payment they hardly raise question on expenditure decisions of PRIs. If the PRIs have freedom to take expenditure decisions for the entire amount being invested in their area on functions belonging to their domain, the same resources could be used more efficiently because the accountability mechanism would be operative. Low own revenue and poor accountability related to expenditure decisions forms a vicious cycle in low level equilibrium. Panchayats move for more funds but not more freedom to raise & spend funds. The PRIs have disproportionately higher expenditure responsibilities compared to income as shown in the

Table -1.

Level of Government	Revenue Share %	Expenditure Share %
Union	66.19	47.70
State	31.31	45.19
Local (Rural+Urban)	2.5	7.11
Total	100	100

Source: T.R. Raghunandan

Untied funds available to Panchayats is not only small but often the same are released with prescriptions which are not linked to reaching quantifiable standards of living to make the use of funds a means for influencing desired outcomes and not an end in itself. Health, education, social security & civic services are hardly funded by PRIs because their responsibilities are not clear and milestones to be reached are not defined and shared. The people are not concerned with decision making by the PRIs of their untied fund.

Within the fiscal transfer system in India, the President of India appoints a Finance Commission in every five years to recommend on distribution between the Union & the States of the net proceeds of Union taxes and how that will be allocated among States (Art 280). Again, the Art 280 (bb) was introduced through 73rd amendment for Finance Commission to recommend augmentation of consolidated fund of a State to supplement the resources of the Panchayats in the State on the basis of recommendation of the State Finance Commission. The State Legislature may by law give PRIs power to collect and appropriate revenue (Art 243 H). Further, and the State Finance Commission recommends sharing of taxes and grants in aid by the State to the PRIs (Art 243 I).

Two and half decades have passed since path-breaking constitutional amendments were passed, but what has been the overall progress in devolution of powers to panchayats? The various reports including Mani Sankar Iyar committee report have indicated that fiscal devolution has lagged behind functional devolution, as funds must follow functions – that makes real devolution still a mirage! The fiscal devolution is further hampered by delays and unpredictability in fund flows to PRIs, implying that PRIs do not receive their allocated budgetary provisions. Further, they have little autonomy over their finances as the bulk of the funds received are tied to clearly-specified expenditure guidelines.

Problems Relating to the Own Source Revenue (OSR) of PRIs

State Legislature may assign taxation power to the Panchayats. The typical taxation powers include Property tax, Tax on advertisement on boards, Profession tax, Entertainment tax etc, which are normally assigned to the GPs. PRIs may be allowed by the States to levy various tolls and fees etc. PRIs may also collect Non-tax revenue from commercial activities like giving on rent assets (market/community hall etc), leasing out water bodies, social forestry, horticulture, running hospital etc. However, experience suggests that the collection of revenue by the Panchayats is quite low in most of the states and there are Panchayats which do not collect any revenue at all. Collection of OSR through direct taxes like the property tax is fraught with losing public support if impact of collection of tax is not visible to the payee. The situation is further complicated by populist politics adopted by political parties irrespective of whether they are in power or not. The strong political consensus on the issue of collecting revenue as per law in existence will be helpful in promoting collection of own source revenue. Developing any political consensus at the higher level may not be easy in absence of strong political will for strong local governance. It is possible to develop such consensus at the local level and such consensus may be used to ensure better mobilization of own source revenue. There is need to ensure transparency and accountability in respect of collection and expenditure of own source revenue of the Panchayat. Both income and expenditure related to the own source revenue have to be shared with the people in all possible ways – like writing on the wall, circulating statements in Gram Sabha, putting on the website etc. Participatory budgeting exercises will help the people to know where their money is going and they will be more interested in taking care that all own source revenues are spent in the best interest of the local community and more fund is raised for improving services

Panchayat Budget

As per provision of the 73rd Amendment to the Constitution, the Panchayat has to prepare annual budget and annual plan, which are to be passed by the general body. However, in reality, prior indication of availability of fund from all possible sources is a major problem for the Panchayats to prepare their budget and plan expenditure. PRIs rather plan & spend money after receiving fund. The uncertainty of receiving funds and predominance of fund for agency work does not facilitate proper planning related to civic services and other activities to meet the local demands which do not fit in to guidelines for agency functions. Therefore, there is no holistic plan reflecting expenditure decisions for optimizing benefits out of total resources. So, Panchayats do not feel the need for more own source revenue. The Panchayats Budget in many places are optional exercises. The Panchayats can pursue their functions without passing their budget except where salary has to be spent from their own fund. Even in such cases where passing budget as per rule is a pre-requisite for incurring expenditure there is hardly any mechanism for checking compliance to rules. The fund received by Panchayat for a certain purpose is often understood as clearance to spend money for that purpose. Exercising expenditure control through budget mechanism is thus very weak for Panchayats.

The fiscal sustainability in terms of failing to meet expenditure obligation is also hardly an issue as long as the Panchayats are mostly funded from above and there is weak budgetary control. For functions devolved on the PRIs, the State Govt. remains responsible for transferring required fund and salary of employees to be engaged for carrying out those functions. Fund to be so transferred should be clearly shown in the budget. It is better that the amount to be devolved is shown in department wise budget through Panchayat specific budget window. Except Kerala and Karnataka, none other States publish a separate budget volume showing department wise and Panchayat wise amount of fund to be transferred as well as the purpose, which gives complete picture of devolution of fund for PRIs to prepare their budget.

Thus the fiscal devolution has lagged functional devolution in India. For functions devolved on the Panchayats funds are still released from above making the Panchayts carry the agency functions of Union/State Govts. The scheme-based allocation leaves little scope for meeting other urgent needs and ownership for improving fiscal management by the Panchayats is limited which could take place if funds were fully devolved not linking those to specific schemes

The fiscal decentralization to PRIs at present needs substantial strengthening through proper functioning of the State Finance Commissions and States transferring fund as per recommendations of State Finance Commissions. Database related to Panchayats finance has to improve for the State Finance Commissions and the Central Finance Commission to get clearer insight of fund requirement related to responsibilities assigned on the PRIs & setting standards. The revenue of PRIs has to improve to a decent level, through more tax assignment/ piggybacking central/state taxes or formula based transfer which encourages local revenue collection. Further, accounting of the Panchayat finance has to be substantially improved including full computerization of accounts for better analysis of fund management. The Panchayats can function as ‘institutions of self-government if devolution is linked to Functions, Funds and Functionaries.

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