Panchayat Finances in India
Measures to Augment Resources of PRIs

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by

V N Alok

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Indian Institute of Public Administration
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SUMMARY AND RECOMMENDATIONS

Like many other foreign federations, local governments in India are supposedly responsible for rendering essential services, including sanitation, drinking water, primary health, street lighting and roads. They are also empowered to collect certain tax and non-tax revenues. However, in most cases, considerable gap between own resources and requirements can easily be seen. The gap is more noticeable in the case of rural local governments (*Panchayats*) than their counterparts in urban areas due to their narrow resources base. Both these local governments largely depend upon the financial support from their respective State Governments. In this summary an attempt is made to objectively present the potential of the corrective measures that the Union Government and 15th Finance Commission (15th FC) could take for *Panchayats* in India.

The Legal Framework

With the passage of the 73rd Constitution Amendment Act (CAA), *Panchayats* got recognition in the statute book as institutions of self-government in India. This accelerated the process of decentralisation with greater devolution and delegation of powers to rural local governments. Consequently, Part IX has been inserted in the Constitution for *Panchayats* and the State legislature has been made responsible to assign responsibilities to *Panchayats* in the matters listed in the Eleventh Schedule to the Constitution. The State is also expected to transfer the concomitant powers to enable the *Panchayats* to carry out the responsibilities conferred upon them.

Under the CAA, the state legislature is expected to devolve responsibilities, powers and authorities to the *Panchayats* to enable them to function as institutions of self-government. The legislature of a State may authorize the *Panchayats* to levy, collect and appropriate certain taxes, duties, tolls, fees, etc, and also assign to them the revenues of certain state level taxes subject to such conditions as are imposed by the state government. Further, grants-in-aid may also be provided to the *Panchayats*. Resulting from the CAA, the number of *Panchayats* in India stands at 2, 60,623 of which 2,53,380 are village *Panchayats*, 6,613 are intermediate *Panchayats*, and 630 are district *Panchayats* (*please see Table 4.1*).

The new fiscal arrangement necessitates every State under Article 243(I) to constitute, at regular interval of five years, a finance commission (SFC), and assign it the task of reviewing the financial position of *Panchayats* and making recommendations on the sharing and assignment of various taxes, duties, tolls, fees etc and grants-in-aid to be given to the *Panchayats* bodies from the Consolidated Fund of a State. The conformity Act of the CAA provides for the composition of the commission, the qualifications for its members and the manner of their selection. Every recommendation of the commission together with an explanatory memorandum is to be laid before the legislature of the State.

Generally the functional responsibilities are closely linked with the financial powers delegated to the local government, in practice the huge mismatch between these two leads to a severe fiscal stress at the local level. The own revenues of local governments are good enough to meet only a part of their operations and maintenance requirement. Therefore they are dependent on the higher levels of governments to finance even their recurring expenditure. Towards this end, the devolution of resources from the Centre to States and the States to *Panchayats* was considered a necessary requirement and clause "*measures needed to augment the*

Consolidated Fund of a State to supplement the resources of the Panchayats and municipalities" was inserted in article 280 (3) of the Constitution on the recommendations of the Joint Parliamentary Committee headed by K P Singh Deo, which went into the Constitution (73_{rd} Amendment) Bill, 1991. Later, it was also inserted in the Seventy-second Amendment Bill. Para 4(iii) of the Presidential Order dated November 27, 2017 regarding the constitution of the 15_{th} FC is the verbatim reproduction of the sub-clause 280(3) (bb & c).

Table 1: Numbers of *Panchayats* in each State/UT as on 1st September 2019

Sl.No.	State/UT	Levels of *Panchayats* (Numbers)				Rural Population per VP
		District[3]	Block[2]	Village[1]	Total	
1	Andhra Pradesh	13	660	13042	13715	2824
2	Arunachal Pradesh	23	177	1785	1985	695
3	Assam	26	191	2199	2416	13472
4	Bihar	38	534	8386	8958	11857
5	Chhattisgarh	27	146	10978	11151	1804
6	Goa	2	n.a.	191	193	3827
7	Gujarat	33	248	14292	14573	2588
8	Haryana	21	126	6197	6344	2986
9	Himachal Pradesh	12	78	3226	3316	2100
10	Jammu & Kashmir	22	306	4482	4810	2259
11	Jharkhand	24	263	4370	4657	6255
12	Karnataka	30	176	6021	6227	6563
13	Kerala	14	152	941	1107	49385
14	Madhya Pradesh	51	313	22817	23181	2311
15	Maharashtra	34	351	27869	27869	2272
16	Manipur	6	-na-	161	167	14668
17	Meghalaya (d)	-na-	-na-	-na-	0	-na-
18	Mizoram (d)	-na-	-na-	-na-	0	-na-
19	Nagaland (d)	-na-	-na-	-na-	0	-na-
20	Odisha	30	314	6798	7142	5264
21	Punjab	22	147	13271	13440	1335
22	Rajasthan	33	295	9892	10220	5127
23	Sikkim	4	-na-	185	189	2672
24	Tamil Nadu	31	385	12523	12939	3159
25	Telangana	9	438	13057	13504	1726
26	Tripura	8	35	591	634	7600

27	Uttar Pradesh	75	822	58791	59688	2847
28	Uttarakhand	13	95	7762	7870	927
29	West Bengal	22	342	3340	3704	22498
Union Territories						
1	Andaman & Nicobar	3	9	70	82	3784
2	Chandigarh	-na-	-na-	n.a.	0	-na-
3	Dadra & Nagar Haveli	1	n.a.	20	21	-na-
4	Daman & Diu	2	n.a.	15	17	-na-
5	NCT of Delhi (e)	n.a.	n.a.	n.a.	0	-na-
6	Lakshadweep	1	n.a.	10	11	-na-
7	Puducherry	n.a.	10	98	108	4470
	India	630	6613	253380	260623	3624

Source: Chapter 1 of this report
Notes: na-not available
1. *VPs-Village Panchayats or Gram Panchayats in almost all States.*
2. T*he nomenclature of intermediate rung differs from one State to another. It is known as Mandal PariShad in Andhra Pradesh, Anchal Samiti in Arunachal Pradesh, Anchalic Panchayat in Assam, lanpad Panchayat in Chhattisgarh and Madhya Pradesh, Taluka Panchayat in Gujarat, Taluk Panchayat in Karnataka, Panchayat Union in Tamil Nadu, Kshetra Panchayat in Uttar Pradesh and Uttarakhand and Panchayat Samiti in many States, i.e. Bihar, Haryana, Himachal Pradesh, Jharkhand, Maharashtra, Orissa, Punjab and Rajasthan.*
3. *It is also known as Zilla Panchayat/Parishad in many States.*
d T*he State is outside the purview of Part IX of the Constitutian under its Article 243 M.*
e *Panchayat has yet to be revived*

Finances of the Local Governments

The shrinking fiscal space for the *Panchayats* can be noticed easily. Table 4.2 reveals that the total expenditure of *Panchayats* is far less than the revenue they generate. Many feel that this situation needs to be radically improved. It is argued that there is a need to have inclusive governance for inclusive growth, by restructuring the fiscal architecture to accommodate *Panchayats* in a more equitable and efficient manner. The hallmark of any self-government is the degree of financial autonomy it enjoys in formulating and implementing public policies in regard to those functional responsibilities assigned to it. The amendment to the sub-clause 280(3) is a firm affirmation of the organic link between the UFC and the State - sub-State public finances. The task of restructuring public finance substantially depends on streamlining the multiple channels of resource flow from the Centre to the rural local governments through the States.

Fiscal transfers in the form of shared revenue and grants are the mainstay of the *Panchayats*' finances even in progressive States. Revenue is shared from the divisible pool of the State following the recommendations of the respective SFC. However, wide variations are seen across States in defining the divisible pool. A few SFCs form the divisible pool by including the share of central taxes with the State tax and non-tax revenues, *e.g.* the SFC of Andhra Pradesh.

Table 2: Resource Gap for *Panchayats* (Average of 2012-13 to 2017-18) of ten select states

(Rs. in crore)

Sl. No.	State	Expenditure by *Panchayats*	Own Resources of *Panchayats*	Resource Gap	Share of Own Revenue in Total Expenditure
1	AndhraPradesh	5976.9	406.0	5570.9	6.8
2	Bihar	1005	0.0	0.0	0.0
3	Gujarat	16438.2	1089.6	15348.6	6.62
4	Karnataka	26266.7	454.2	25812.6	1.7
5	MadhyaPradesh	4171	0.0	0.0	0.0
6	Maharashtra	36595.8	7546.1	29049.7	20.6
7	Odisha	3912.8	29.2	3883.5	0.7
8	TamilNadu	5116.6	827.6	4289.0	16.2
9	Uttar Pradesh	5166.3	1239.3	3927.0	24.0
10	West Bengal	13496.6	632.7	12863.9	4.7

In other words, some of the States, despite the constraints on their resources, do reduce the fiscal imbalance of the local governments, though partly, through a share in Union taxes. It can be observed that the fiscal capacity of the local governments in general, is not very strong. Property tax, advertisement tax, profession tax, taxes on vehicles and animals, theatre tax, user charges on services, rental income from properties, developmental charges, fees and fines, and the like contribute the maximum to the kitty of the local governments' own-source revenue.

It may be argued that States could reduce the vertical fiscal imbalance by assigning a few buoyant revenues to *Panchayats*. But, the limited financial space open to the States and the perceived low organisational and administrative capacity of *Panchayats* has prevented the States from exercising this option. The dependence on fiscal transfers, particularly conditional and purpose specific ones is reducing the autonomy of the *Panchayats* to allocate resources according to their own priorities. It is critical to enable and empower the local governments to enhance their capacity. In order to make this happen, a mechanism of untied transfer of funds to the local governments is essential for enhancing their fiscal capacity and functional autonomy.

It is argued that the resources could also be transferred to the *Panchayats* from other channels but they are tied and hardly assist in building the fiscal capacity of the *Panchayats.* Hence, responsibility lies with the 15th FC to devolve adequate funds for this purpose to *Panchayats* under Article 280(3) (bb). Significant tied funds are being transferred to *Panchayats* through the centrally sponsored schemes (CSSs). For long, the CSS transfers were administered and utilised mainly by the line departments. In recent years, the local governments are being increasingly recognised as implementing institutions for the vertical schemes of line ministries.

Recently, many vertical schemes have started assigning a range of responsibilities to *Panchayats* and depend upon them for grassroots implementation. In addition, there are several important flagship programmes of the central government, which aim at provisioning basic essential services across the country through the local governments. The allocations to the programmes, entailing the involvement of the local governments, have shown a substantial growth. It is a good augury that the institutional mechanisms tend to provide centrality to *Panchayats* in their planning and implementation. It is observed that today the physical and social infrastructure is growing gradually in rural areas of some States. Tomorrow, the emphasis will shift to the operation and maintenance of the assets created, the cost of which would have to be met largely through devolution and grants recommended by the UFC and SFCs. In addition, the Disaster Management Act, 2005 has also identified the role for *Panchayats* at the local level.

The Study

Against the backdrop, the study on 'measures to augment the resources of *Panchayats'* attempts to assess the status of devolution of finances (including the power for own revenue generations by *Panchayats*), functions, and functionaries to *Panchayats* in the spirit of 73rd Constitutional Amendment or Part IX of the Constitution. The assessment has been carried out at the level of States with reference to the themes specified in the scope of the study. The thrust has been augmenting own resources/revenue generation by various rungs of *Panchayats*, identifying gaps in the process of financial devolution.

Hence, the study assesses the enabling environment created by States for the *Panchayats* to function under. This study has analysed the extent to which ten select States have devolved their powers and resources to *Panchayats* mandated to promote economic development and social justice in their respective jurisdictions. The study has focused on 18 parameters i.e, Basic details of *Panchayats,* Constitution and Functioning of District Planning Committee, Role of *Panchayats* in Parallel Bodies, Autonomy to *Panchayats,* Functions Assigned to *Panchayats* and Actual Involvement, *Panchayats* involvement in important schemes, Fourteenth Finance Commission Grants (basic grants and performance grants), Status of State Finance Commissions (SFCs), Money Transferred on account of SFCs to *Panchayats,* Empowerment of *Panchayats* to impose/ collect revenue, GST Implications in *Panchayats*, Expenditure, Role of *Gram Sabha*, Number of Plans prepared under *Gram Panchayat* Development Plan, Transparency and Anti-Corruption, Infrastructure (Physical and Digital), Training Institutions/ Activities and E-Connectivity & ICT Measures. The summaries of findings against the parameters are outline below:

Summary of the Report

1. *Basic Details of Panchayats*

The *Panchayats* in India carry out the functions and responsibilities assigned to them with the devolution of power and authority for the purpose. With the passage of the 73rd Constitution Amendment Act (CAA), *Panchayats* got recognition in the statute book as institutions of self-government in India.

Panchayats in Andhra Pradesh at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* are known as *Gram Panchayat, Mandal Parishad,* and *Zilla Parishad* respectively. In Andhra Pradesh, there are total 13042 *Gram Panchayat*, 660 *Mandal Parishad* and 13 *Zilla Parishad.* On an average, each *Gram Panchayat* covers 2824 rural population. The state of Andhra Pradesh has given 50% reservation to women, 18.18% to Scheduled Castes (SCs) and 9.15% to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in the state for the first time conducted in 1995 followed by in 2001, 2006, and 2013 and last one in 2018-19.

Panchayats in Bihar at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* are known as *Gram Panchayat, Panchayat Samiti*, and *Zilla Parishad* respectively. In Bihar, there are total 8386 *Gram Panchayat*, 534 *Panchayat Samiti* and 38 *Zilla Parishad.* On an average, each Village *Panchayat* covers 11857 rural populations. The state of Bihar has given 50% reservation to women, 16.31% to Scheduled Castes (SCs) and 0.77% to Scheduled Tribes (STs) at the level of *Panchayats.* Election to the *Panchayats* in the state for the first time conducted in 2001 followed by in 2006, 2011 and last one in 2016.

Panchayats in Gujarat at the level of Village, Block and District *Panchayat* are known as *Gram Panchayat, Taluka Panchayat* and *Zilla Panchayat* respectively. In Gujarat, there are total 14292 *Gram Panchayat*, 248 *Taluka Panchayat* and 33 *Zilla Panchayat.* On an average, each *Gram Panchayat* covers 2588 rural population. The state of Gujarat has given 50% reservation to women, 7% to Scheduled Castes (SCs) and 14% to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in the state for the first time conducted in 1995 followed by 2000-01, 2005-06, and 2010-11 and for the last time conducted in 2015-16.

Panchayats in Karnataka at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* are known as *Gram Panchayat, Taluka Panchayat*, and *Zilla Panchayat* respectively. In Karnataka, there are total 6021 *Gram Panchayat*, 176 *Taluka Panchayat* and 30 *Zilla Panchayat.* On an average, each per *Gram Panchayat* covers 6563 rural population. The state of Karnataka has given 50% reservation to women, 18% to Scheduled Castes (SCs) and 7% to Scheduled Tribes (STs) at the level of *Panchayats.* Election to the *Panchayats* in the state for the first time conducted in 1995 followed by in 2000, 2005, and 2010 and last one in 2015.

Panchayats in Madhya Pradesh at the level of *Gram Panchayat*, Block *Panchaya*t and District Panchayat is known as *Gram Panchayat, Janpad Panchayat,* and *Zilla Parishad* respectively. In Madhya Pradesh, there are total 22817 *Gram Panchayat*, 313 *Janpad Panchayat*, and 51 *Zilla Parishad*. On an average, each *Gram Panchayat* covers 2311 rural population. The state of Madhya Pradesh has given 50% reservation to women, 15% to Scheduled Castes (SCs) and 26.1 at District, 27.8 at Intermediate and 28.7% at village to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in the state for the first time conducted in 1994 followed by in 1999, 2000, 2004-05, and 2010 and last one in 2015.

Panchayats in Maharashtra at the level of Village, Block and District *Panchayat* are known as *Gram Panchayat, Panchayat Samiti* and *Zilla Parishad* respectively. In Maharashtra, there are total 27869 *Gram Panchayat*, 351 *Panchayat Samiti* and 34 *Zilla Parishad.* On an average, each *Gram Panchayat* covers 2272 rural population. The state of Maharashtra has given 50% reservation to women, 11% to Scheduled Castes (SCs) and 13% to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in the state for the first time conducted in 2000 followed by in 2005, 2010, and 2012 and last one in 2017.

Panchayats in Odisha at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* are known as *Gram Panchayat*, *Panchayat Samiti*, and *Zilla Parishad* respectively. In Odisha, there are total 6798 *Gram Panchayat*, 314 *Panchayat Samiti* and 30 *Zilla Parishad*. On an average, each *Gram Panchayat* covers 5264 rural population. The state of Odisha has given 50% reservation to women, 16.25% to

Scheduled Castes (SCs) and 22.05% to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in the state for the first time conducted in 1994 followed by in 1999, 2000, 2004-05, and 2010 and last one in 2015.

Panchayats in Tamil Nadu at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* are known as Village *Panchayat*, *Panchayat* Union, and District *Panchayat* respectively. In Tamil Nadu, there are total 12523 Village *Panchayat*, 385 *Panchayat* Union and 31 District *Panchayat*. On an average, each Village *Panchayat* covers 3159 rural population. The state of Tamil Nadu has given 50% reservation to women, 23% to Scheduled Castes (SCs) and 1% to Scheduled Tribes (STs) at the level of *Panchayats.* Election to the *Panchayats* in the state for the first time conducted in 1995 followed by in 2001, 2006, and 2011 and last one in 2016.

Panchayats in Uttar Pradesh at the level of Gram *Panchayat,* Block *Panchayat* and District *Panchayat* are known as *Gram Panchayat*, *Kshettra Panchayat*/Area *Panchayat*, and *Zilla Parishad* respectively. In Uttar Pradesh, there are total 58791 *Gram Panchayat*, 822 *Kshettra Panchayat*/Area *Panchayat* and 75 *Zilla Parishad.* On an average, each Gram Panchayat covers 2847 rural population. The state of Uttar Pradesh has given 33% reservation to women, 27% to Scheduled Castes (SCs) and 0.6% to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in state for the first time conducted in 1995 followed by in 2000, 2005, and 2010 and last one in 2015-16.

Panchayats in West Bengal at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* is known as *Gram Panchayat*, *Panchayat Samiti*, and *Zilla Parishad* respectively. In West Bengal, there are total 3340 *Gram Panchayat,* 342 *Panchayat Samiti* and 22 *Zilla Parishad.* On an average, each *Gram Panchayat* covers 22498 rural populations. The state of West Bengal has given 50% reservation to women, 41% at District, 42% at Intermediate and 42%% at village to Scheduled Castes (SCs) and 23% at District 10% at Intermediate and village to Scheduled Tribes (STs) at the level of *Panchayats*. Election to the *Panchayats* in state for the first time conducted in 1995 followed by in 1998, 2003, and 2008-09 and last one in 2018.

2. *District Planning Committee*

'District Planning Committee', a mandatory provision in the Constitution, is an important indicator in the study. The DPC plays very important role in the district planning process by consolidating plans prepared at the local level by the villages and towns in the district and then preparing a draft development plan for the district on the basis of the plans so received from within the district. DPC is crucial to the function of 'planning for economic and social justice', which is now a mandated local function, in that it provides the vital link between rural and urban plans as well as sectoral plans.

Under this indicator, Karnataka, Madhya Pradesh, Maharashtra, and Tamil Nadu out of ten select states seem to be active in terms of establishment of District Planning Committees (DPCs), which conduct their meetings regularly and also submit district plans to the respective state governments. Since it is a mandatory provision of the Constitution all States under study have provisions related to the constitution of DPCs in their respective Acts.

3. *Role of Panchayats in Parallel Bodies*

Apart from three rungs of *Panchayats*, parallel bodies are created at most levels of *Panchayats* to discharge certain responsibilities at the directions of the state government. This creates confusions and concurrency as constitutionally mandated *Panchayas* are in position, in the same geographical area, to discharge the same set of responsibilities.

The motive behind creating parallel bodies is to have speedy implementation of the schemes and accountability of the same to the state government. For example, there are parallel bodies functioning in one or other form at the level of District Rural Development Agencies (DRDA)s, Education (*Sarva Siksha Abhiyan*), Water, Health (National Rural Health Mission) and Sanitation (Swatch Bharat Mission (*Gramin*), Agriculture Corporation, and Integrated Tribal Development Agency.

4. *Autonomy to Panchayats*

Panchayats in various states, function under the provisions of particular *Panchayat* Acts passed in the respective Legislative Assembly. In some States among select ten states, representatives, *Panchayat* bodies, and resolution of District *Panchayat*, Block *Panchayat* and *Gram Panchayat* are suspended/dismissed/dissolved by state government/DC/SDO/Divisional Commissioner.

The State Government has the power to issue charge sheet to all the levels of *Panchayats* in the states of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu and West Bengal. Data from other States were not available on the subject.

5. *Functions Assigned and Actual Involvement*

Article 243 G envisages the involvement of *Panchayats* in various matters including those listed in the 11th Schedule of the Constitution. Over a period of time, role of the *Panchayats* has increasingly been identified in various vertical schemes of the Union government. Such direct involvement of these grassroots institutions make them participatory in the multi order federal system.

Panchayats are the key institutions in rural areas through which various schemes of the government can be implemented. The involvement of *Panchayats* across ten select states have been found in the schemes such as National Social Assistance Programme (NSAP), Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGP), *Swatch Bharat* Mission (*Gramin*), Integrated Child Development Schemes (ICDS), Mission *Antyodaya* etc.

6. *Involvement of Panchayats in Important Schemes*

A substantial portion of resources for the development of *Panchayats* is provided by the Union Government through various schemes. The Centrally Sponsored Schemes (CSSs). CSSs are conceived under the provision of the Article 282 of the Indian Constitution with avowed objective of tackling problems. The role of *Panchayats* varies across different Centrally Sponsored Schemes (CSSs), which are administered by different Union Ministries.

Among the major CSSs, National Rural Employment Guarantee Programme, *Indira Awas Yojana*, Total Sanitation Campaign, Accelerated Rural Water Supply Programme, National Programme of Nutritional Support to Primary Education (Mid-Day Meals), National Horticulture Mission, Macro Management of Agriculture, Micro Irrigation etc. are the schemes, which provide for roles and responsibilities for *Panchayats.*

7. *Fourteenth Finance Commission Grants*

The Union Finance Commission (UFC) has a major role to induce the institutions of governance that are closest to the people. The processes of fiscal devolution from States to the *Panchayats* are taking place through SFCs. In many States, the report of fifth generation SFC has been submitted. Assets are being either created or transferred to the *Panchayats*. All of this imposes an administrative cost on the *Panchayats* and draws on scarce resources that they receive from their own sources and from the state. In this connection, fiscal transfers through UFC have to play a critical role.

It is to be mentioned that ad hoc grants of a token nature given by the 14th Finance Commission now need to be replaced by regular transfer arrangement. The role now for the Fifteenth Finance Commission is to act as the path breaker in creating an enabling environment for fiscal decentralisation at the sub-state level. This could be done through fiscal capacity equalisation, an essential condition for a controlled and gradual process of fiscal decentralisation. This requires, at this stage, the support from the Union Finance Commission as various sub national governments have different and inadequate capacities to finance the *Panchayats*. This is partly due to hard budget constraints imposed on them. It is expected from the Fifteenth Finance Commission to accept that fiscal decentralisation is not a zero sum game. In this context, the following points are worthy of being noted:

- Certain annual rise in the administrative cost is inherent with the increase of public employees' salaries particularly after the implementation of the recommendations of the Seventh Pay Commission. This will have effect in the establishment cost of the local governments including the salary of the staff in the account and a computer section (necessary minimum staff need to be appointed in all *Panchayats*.
- Due to increased activities, there would be an additional maintenance cost of office space including storage, record rooms, computer centre, libraries etc.
- In order to impose a uniform system of financial accounts, audit rules, disclosure requirements under Right to Information (RTI) Act, there would be a need for technical assistance to local governments in several areas such as computerisation, accounting, treasury, tax administration, data processing, project evaluation, audit at local fund and Comptroller and Auditor General (CAG) levels, transparent procurement procedures etc.
- Operation and maintenance costs will go up chiefly due to greater investment in the form of local infrastructure particularly for drinking water supply, irrigation and communication for the poor.
- There would be additional recurring expenditure on traditional civic services like public lighting, roads and sanitation arising out of increased people's expectations.

Under article 280 (3) bb, Union Finance Commission (UFC) has to suggest measures to augment the consolidated fund of states for *Panchayats*. So far, five UFC's have made their recommendations for five years. Fourteenth Finance Commission which made its recommendations of Rs. 2,00,292.20 crores to the Gram *Panchayats* in states for a period of five years, i.e. 2015-20. The grants-in-aid were divided into two parts i.e. basic grants and performance grants.

The 14th FC allocated 90 per cent of the total grants as basic grants and 10 per cent was based on performance on select indicators including own revenue enhancement of *Panchayats*. Basic grants are extremely important for the working of *Panchayats*, as the same covers the operation and maintenance cost.

It is important to note that all the ten select states, Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu, Uttar Pradesh and West Bengal have released funds related to the Fourteenth Finance Commission to the *Panchayats* on time.

It is to be mentioned here that states of Gujarat, Madhya Pradesh, Maharashtra, Odisha, and Tamil Nadu have released 100% Basic and Performance Grants to *Panchayats* and overall there has been 96.57% of transfer of basic and performance grants recorded among ten select states.

In its first report presented in the Parliament on 31st January 2020, the 15th Finance Commission has recommended a total amount of Rs. 60,750 crores or approximately 2.90 per cent share of the Union divisible pool for *Panchayats* for the year 2020-21. As far as, ten select states are concerned, the recommended devolution for *Panchayats* of ten select states is 43,895 crores for interim award period of 2020-21. This grant is having two components namely: Untied or basic and tied and will be in the ratio of 50:50. The basic grant will be utilised by *Panchayats* for their specific needs except for salary or expenditures on other establishments. On the other hand, tied grants targets critical areas like sanitation and drinking water as an additional ensured fund over and above the fund allocated to *Panchayats* through centrally sponsored schemes and state schemes.

8. *State Finance Commission (SFC)*

Constitution of State Finance Commission (SFC) in every fifth year is the mandatory requirement of the Constitution under Article 243 (I). SFC is required to recommend the range of taxes and non-taxes to be devolved to them.

The SFCs have a major role to ensure that the democratic decentralization envisaged under the CAA becomes operational and effective. The State Governments have the responsibility to enhance the credibility and acceptability of the SFCs. It is the State Government that has to enact a conformity act prescribing the number and qualification of members of the Commission.

Among ten select states, six states namely Bihar, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu and Uttar Pradesh have constituted their 5th State Finance Commission, and three states namely Andhra Pradesh, Karnataka and West Bengal have not constituted their 5th State Finance Commission. The last one that is Gujarat among the ten select states has to constitute even its 4th State Finance Commission.

9. *Money Transferred on Account of SFCs to Panchayats*

State Finance Commissions are constituted in the State every five years to recommend the ways and means to increase the tax base of *Panchayats* and allocations of State net tax receipts to and among the *Panchayats*.

Grants-in-aid are provided to fill the gap of the local governments – both *Panchayat* and municipalities - so that they can meet the expenditure on local public goods.

These can be (a) general-purpose grants or block grants based on some criteria or formula meant for additional resources with no conditions attached; and (b) conditional or specific purpose grants, e.g. some schemes or projects.

SFCs of all generations have recommended various types of Grants. These grants vary from state to state. Even the definitions and connotations are diverse across states over time. SFC in state of Andhra Pradesh has a provision of special-purpose, maintenance, and block grant. In Gujarat there is provision for Incentive grant, compensatory grant, and maintenance grant apart from general purpose grant. In Madhya Pradesh, there is a provision of performance-based grant, conditional matching grant, and compensatory grant apart from general-purpose grant. In Maharashtra apart from general purpose grant there is also provision of block grant, incentive grant, and fund equalisation grant. In Odisha, there is a provision of general-purpose and specific grant. In Tamil Nadu, there is a provision of matching grant and maintenance grant apart from general and specific purpose grant. In Uttar Pradesh grant name fund equalisation grant, block grants are in existence apart from General and specific purpose grants. In West Bengal Matching grant, Incentive fund and deficit grants are in existence apart from general and specific purpose grants.

10. *Empowerment of Panchayats to Impose/Collect Revenue*

Powers to impose taxes by the local governments was considered imperative to be enshrined in the Constitution under Article 243H to impart certainty, continuity and strength to the *Panchayats*. In most states, the property tax contributes maximum revenue of *Panchayats.* It is important to note that the property tax has been assigned to local governments including *Panchayats* in the states of Andhra Pradesh, Karnataka, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal among ten select States. It is important to note that it remains the major source of own tax revenue for most *Panchayats.* The Entertainment Tax stands assigned to the *Panchayats* in Andhra Pradesh, Tamil Nadu and West Bengal. Most States have also authorised the *Panchayats* to collect Land cess/Land tax. *Panchayats* in a number of States including Andhra Pradesh, Bihar, Gujarat, Karnataka, Odisha, Tamil Nadu and Uttar Pradesh also collect Vehicle tax. Tax on bicycles and on vehicles drawn by animals, Trade and Callings Tax, Toll Tax are the other taxes which have been assigned to the *Panchayats* in most States. However, all these tax handles provide abysmal revenue to *Panchayats* and they have to depend on intergovernmental fiscal transfers from the respective state government and Union government.

11. *GST Implications*

New GST regime, has affected the tax base of local governments including *Panchayats.* The Amendment Act has subsumed some taxes that formed base of own source revenue for *Panchayats*. One of such taxes is Octroi which was abolished long back and changed to entry tax in some states, Tax on advertisement and fee collected on sale and purchase of agricultural produce. Also *Panchayats*/ Municipality/Regional council/ District council are authorised to collect taxes on entertainments and amusements. It is pertinent to mention here that *Panchayats* collect very little of their own expenditure requirements and depend largely on intergovernmental fiscal transfers from upper levels of governments both Union and State. The introduction of GST subsuming few tax handles of *Panchayats* has not affected the tax collection of *Panchayats* substantially. Though *Panchayats* did have the resource base as per the respective State Panchayat Act but had little capacity and willingness to administer and collect those taxes for various reasons. In short, introduction of GST has little implication on the own revenue collection of *Panchayats.*

12. *Expenditure*

In international literature on fiscal decentralisation, the expenditure incurred by local governments is considered a key indicator for empowerment. The expenditure by all rungs of *Panchayats* as a proportion of total State public expenditure is considered a reliable indicator. Its State wise analysis is given below:

- The *Panchayats* in the State of Andhra Pradesh spends 4.27% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs 1623 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the State of Bihar spends 0.91% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs. 101 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the State of Gujarat spends 12.97% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs. 4444 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the State of Karnataka spends 18.79% of the total state expenditure on *Panchayats* with per capita expenditure of Rs. 6647 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the state of Madhya Pradesh spends 3.39% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs. 791 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the state of Maharashtra spends 16.42% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs. 5779 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the state of Odisha spends 5.30% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs. 1093 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the state of Tamil Nadu spends 3.10% of the total state expenditure on *Panchayats* with per capita expenditure of Rs. 1293 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the state of Uttar Pradesh spends 1.94% of the total State public expenditure on *Panchayats* with per capita expenditure of Rs. 309 as per the average during the fiscal years 2012-13 to 2017-18.
- The *Panchayats* in the state of West Bengal spends 3.10% of total State public expenditure on *Panchayats* with per capita expenditure of Rs. 1293 as per the average during the fiscal years 2012-13 to 2017-18.

Table 3: Expenditure by *Panchayats* (Average of 2012-13 to 2017-18) of ten Select States

(Rs. in crore)

Sl. No.	State	Expenditure by Panchayats				Expenditure by State*	Share of *Panchayats* in Total Expenditure (in %)	Per-capita Expenditure in *Panchayats* (Rs. in thousands)
		District	Block	Village	Total			
1	AndhraPradesh	309	5211	465	5977	140036	4.27	1623
2	Bihar	100	181	723	1005	109476	0.91	101
3	Gujarat	6532	8601	1305	16438	126753	12.97	4444
4	Karnataka	9238	11864	5164	26267	139755	18.79	6647
5	MadhyaPradesh	275	1252	2644	4171	122778	3.39	791
6	Maharashtra	32550	273	3773	36596	222823	16.42	5780
7	Odisha	284	819	2810	3913	73840	5.30	1093
8	TamilNadu	233	1384	3499	5117	165071	3.10	1293
9	UttarPradesh	1096	379	3690	5166	265990	1.94	309
10	West Bengal	2226	3688	7583	13497	135811	9.94	1796

Source: Respective State Government
Note:'Handbook of Statistics on States by Resewe Bank of India

It is important to mention that average expenditure (2012-13 to 2017-18) of *Panchayats* in Maharashtra is highest among ten select states which is Rs. 36596 crore followed by Rs. 26267 crore in Karnataka. The lowest average expenditure (2012-13 to 2017- 18) among the select states is Rs. 1001 crore and Rs. 3913 crore in Bihar and Odisha respectively.

Among ten select states, share of *Panchayats* in public expenditure is highest in Karnataka which spend 18.79% of total public expenditure in the state followed by Maharashtra 16.42%. The share of *Panchayats* is lowest in Bihar which is 0.91% of the total public expenditure followed by Uttar Pradesh which spends 1.94% of the total public expenditure by *Panchayats.*

13. *Gram Sabha*

'*Gram Sabha',* a basic unit of local democracy, is deemed to safeguard the collective interests of all the residents. The Ministry of Panchayati Raj, Government of India minimum four meetings of the same in a year. Quorum in the meeting was also considered important.

The quorum prescribed for the meeting of *Gram Sabha* is highest in the state of Uttar Pradesh that is one-fifth of the total population. The same is lowest in Bihar and Gujarat, i.e. one-twentieth of total population.It may be noted that, *Gram Sabha* in Maharashtra, Karnataka, West Bengal and Madhya Pradesh are assessed as strong.

14. *Gram Panchayat Development Plan (GPDP)*

Gram Panchayats have been mandated for the preparation of *Gram Panchayat* Development Plan (GPDP) covering all the resources over which the *Panchayats* have command including 14th FC funds, MGNREGS funds, Swachh Bharat funds, etc.

The efforts of the Ministry of *Panchayati Raj* towards facilitating the *Gram Panchayats* through GPDP have enabled preparation of 1,35,590; 2,44,042; 2,44,689; 2,07,278 and 1,95,570 (1,39,312 for ten select states) GPDP plans in the country during 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20 respectively. The data are also being captured in the Plan Plus portal.

15. *Transparency and Anti-Corruption*

Accountability of *Panchayats* to its residents is the most important aspect for the existence of *Panchayat*. Citizen Charter at the level of *Panchayats* exists in the states of Andhra Pradesh, Karnataka, Maharashtra, Madhya Pradesh, Odisha, Tamil Nadu, Uttar Pradesh and Uttar Pradesh.

In Bihar and West Bengal, Citizen Charter does not exist at the level of *Panchayats.*

It is important to note that among ten select states, Andhra Pradesh, Bihar, Karnataka, Maharashtra, Madhya Pradesh, Odisha, Tamil Nadu, Uttar Pradesh and West Bengal have made provisions for either *Lokayukta* or Ombudsman in *Panchayats*.

In Gujarat, it is *Lokayukta* or Government agency which undertakes the complaints of *Panchayats.*Whereasin Uttar Pradesh, only government agency undertakes the complaints of *Panchayats.*

16. *Infrastructure (Physical/Digital)*

Infrastructure-both physical and digital are the most fundamental attributes for the smooth functioning of *Panchayats* which functions for social and economic development at the grass root level. The provision of *Pucca Ghar* together with the basic infrastructure exists for the working of *Panchayats* at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat* in all ten states

In terms of infrastructure at the level of *Panchaya*t in select states Uttar Pradesh has largest number of *Pucca Ghar* at the level of *Gram Panchayat* (33414), Block and District *Panchayat* (72) followed by in the state of Maharashtra. On the other hand, in Bihar at the level of *Panchayat* there are only 5624, 531 and 38 *PuccaGhar* at the level of *Gram Panchayat*, Block *Panchayat* and District *Panchayat,* respectively.

In *Panchayats* of Maharashtra, there is highest number of computers, Printers, Scanners and Other Peripherals among select states followed by the state of Gujarat.

In Maharashtra highest number of Telephone connection is available at the level of *Gram Panchayats* that is 22000 followed by Gujarat 14192. Select ten states, at the level of *Gram Panchayats* that is 26528 followed by Gujarat that is 14192.

17. *Training Institutions/Activities*

Panchayats have criticised quite often for its low capacity to govern due to this very reason constitutionally mandated roles of *Panchayats* have been denied in many States. Hence, capacity enhancement of elected representatives and employees is key for its sustained growth. Training institutions and their activities are important to strengthen *Panchayats* and play a critical role in the overall performance of *Panchayat.* Ministry of *Panchayati Raj* provided financial support to States under Capacity Building- *PanchayatSashaktikaran Abhiyan* (CB-PSA) for Capacity Building & Training (CB&T) with focus on *Gram Panchayat* Development Plan (GPDP) so as to enable them to discharge their mandated functions effectively.

Under these schemes funds were released to the ten select States towards capacity building and training which amount to Rs. 292.73 crore in 2014-15, Rs. 81.42 crore in 2015-16, Rs. 330.08 crore in 2016-17, Rs. 354.92 crore in 2017-18 and Rs. 315.95 crore in 2018-19.

If we look at the number of Elected Representatives, *Panchayat* Functionaries and other Stake holders were trained in *Panchayats* we find that total number of 584320, 948779, 2283959, 4141382 and 3915115 representatives in ten select states were trained during the 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, respectively.

18. *E-Connectivity& ICT Measures*

E-Connectivity and ICT measures in *Panchayat* aim to transform the latter into symbols of modernity, transparency and efficiency. E-Connectivity has been identified as one of the objective of MoPR under RGPSA which aimed at supporting all the effective use of Information Technology (IT) at grass root level or in all rungs of *Panchayats*.

It aims at computerisation of *Panchayats* process and its data so that they are available to the public in electronic mode and acts as a bridge between rural and urban. There is a robust system put by government for effective monitoring of public expenditure by means of a holistic system capturing the entire gamut of activity right from the stage of planning to monitor the various stages of work, recording the expenditure incurred for the works to providing a complete detail of the asset created.

There is a system called e-Financial Management System (e-FMS) comprising PlanPlus, ActionSoft, PRIASoft and National Asset Directory (NAD) with Local Government Directory (LGD) forming the base for such a robust system along with the Public Financial Management System (PFMS).

If we look the present status of the mechanism at the level of *Panchayats* we find the following:

- Pria-Soft is used in states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Odisha, Tamil Nadu, and Uttar Pradesh,
- Local Government Directory (LGD) is used by all ten select states,
- ActionSoft is also used by all ten select states,
- National Asset Directory is used by all states except Karnataka and Madhya Pradesh, and
- Area Profiler is used by all ten select states.

Recommendations

1. It is important to note that reservation for women has seen upward movement across States. As many as 20 states have given 50% reservation to women at

the level of Panchayats. All States, except Uttar Pradesh among ten select States, have given 50% reservation to women in Panchayat at all rungs. Hence, reservation at Panchayat level could be enhanced to 50% from the current 33% so that participation of women at the Panchayat level in all States becomes equal.

2. The District Planning Committee plays a very important role in the district planning process by consolidating plans prepared at the local level by the villages and towns in the district and then preparing a draft development plan for the district, based on inputs so received from within the district. This is a mandatory provision of the Constitution under Article 243 ZD. DPCs signify bottom-up planning which is at the core of the formation of NITI Aayog advocating cooperative and competitive federalism. The functioning of DPCs in States where it has been notified but has not been active or little active needs monitoring. There is also a need for monitoring on a regular meeting of DPCs in States. The NITI Aayog can play a vital role in ensuring that all states, where Part IX and Part IX (A) are applicable, formulate their DPCs and integrate district development plans through the inputs of Panchayats and Municipalities within the district. Such a process could be incentivised through intergovernmental fiscal transfer mechanisms from Union to States.

3. It is believed that political masters at higher levels in States seem to be reluctant to devolve powers to Panchayats, but the minimum set of functions, finances, and functionaries have been devolved to Panchayats. Since the capacity of Panchayats across States is different, any compulsion in this regard may not be appropriate. There could be the following options by which the functioning of parallel bodies could be integrated to enhance the ownership of the villagers:

    a) Parallel bodies could be merged with *Gram Panchayats.*

    b) Parallel bodies could be made accountable to *Gram Panchayats*

    c) *Sarpanch*/ Chairperson/Member *Gram Panchayat* could preside over the parallel bodies in meetings.

    d) The Function of parallel bodies is limited to fund/account management.

4. The Autonomy of Panchayats is seriously compromised through various practices by which field level functionary in the State bureaucracy suspend or dismiss head/member or even supersede(dissolve) the Panchayat. Since Panchayats are elected Institution of Self-governments, only the other elected institution in the State or the judiciary should be the only authority to dissolve Panchayats. Committee of State Legislature or other equivalent authority should be vested with the power of suspension and supervision.

5. In addition to waste management, issuance of birth and death certificates and some other core functions could be drawn from the 29 matters enumerated in the 11th Schedule. These are listed below:

    - Drinking Water.
    - Roads, culverts, bridges, ferries, waterways and other means of communication.
    - Rural electrification, including the distribution of electricity.

- Health and sanitation, including hospitals, primary health centres, and dispensaries.
- Maintenance of community assets.

At least, these **core functions** should be in the exclusive domain of *Panchayats* at different rungs as per the priority of the respective State government. The State government has to see whether concomitant funds and functionaries are adequately devolved to different rungs of *Panchayats*. Fund transfers for these functions should be unconditional. Union Finance Commission award to *Panchayats* could be leveraged for the purpose. More functions could be in the exclusive list of *Panchayats* in a phased manner as and when their capacity and accountability increase.

6. The *Panchayats* at all the three rungs should directly involve in the implementation of the schemes. The involvement of *Panchayats* at only select levels in important schemes does not fulfil the purpose of the schemes. As of now only selected or few schemes are devolved to all three rungs of *Panchayats.* There should be synchronization at all the three levels of *Panchayats. Panchayats* at all the three-level in the state of Gujarat, Karnataka and Tamil Nadu has seen involvement in important schemes. Other state can learn from the practices of these states.
7. While addressing article 280(3) bb, **14th Finance Commission** considered only the *Gram Panchayats* and left the other two rungs i.e. district and block *Panchayats.* The 14th Finance Commission had recommended an amount of Rs. 2,00,292,20 crores to the *Gram Panchayats* of all States in the country over a period of five years. While the Constitution prescribes three tiers *Panchayat* system including district and block *Panchayats*, the recommendations seem inconsistent with the Constitutional provision. The 15th Finance Commission attempted to correct it and has recommended grants for all the three rungs of *Panchayats* to enable pooling of resources across village, block and district to create durable community assets and improved functioning. 15th Finance Commission has recommended a total amount of Rs. 60,750 crores or approximately 2.90 per cent share of the Union divisible pool for *Panchayats* for the year 2020-21 in its first report presented in the parliament on 31st January 2020.
8. The institution of **State Finance Commission (SFC)** is evolving over a period of time. The working of SFCs could be improved further through concerted efforts of Union and State governments. Recommendations in that direction are outlined below:

Role of Union Government

- To introduce a bill to amend Articles 243 I, 243 Y and 280 (3) (bb) & (c) mooted by various SFCs to provide teeth to SFCs;
- To oversee the fulfilment of constitutional provisions in states particularly the mandatory provisions of Article 243 I and 243 Y related to SFC. “A Commission be constituted every five years to report on the Status of Local Government Devolution of Powers. For this requisite provision be made in Parts IX and IX-A on the same lines as Articles 339 and 340;

- To set up an SFC cell in a National Institute for Ministry of Panchayati Raj (MoPR), Ministry of Urban Development (MoUD) and Ministry of Finance, each non-overlapping and synergetic;
- To disseminate best practices of SFCs;
- To monitor national grants both from UFCs and Ministries to local governments through periodic evaluations of inter se distributions to local governments by SFCs and states;
- To hand hold states for capacity equalisation of local governments;
- To set national minimum goal for equalisation of basic services;
- To create vertical schemes so that the above objectives could be achieved;
- To help states in all matters as and when needed;
- To conduct international experience-sharing through workshops and conferences;
- To conduct national and international programs for capacity enhancement;
- To disseminate best practices of SFCs.

Role of State Governments

- To constitute the SFCs for a life span of 18 months and a time limit of six months to act on SFCs' recommendations;
- To issue Government Orders (GOs) on the accepted recommendations and release funds timely to the banks of Panchayats;
- To appoint Chairman and members of eminence with requisite qualifications in public affairs and public finance on the lines of UFC;
- To establish a permanent SFC Cell in the Finance Department;
- To provide core staffs to SFCs;
- To institutionalise the arrangements for annual data collection, preferably work-flow based;
- To adopt standard accounting systems as prescribed by the National agencies, including PRIA Soft;
- To indicate entitlements of Panchayats in the State annual budgets;
- To prescribe a common set of accounting practices that ensure that the accounts of the parallel structures which remain or are created because of functional efficiency are captured in the accounts of the local governments concerned.
- To standardise and notify:

  – Procedures for levy of property and other local taxes

  – Norms for basic services at local level

  – Norms for staffing & salaries for local governments
- To incentivize performance through:

  – Levy and collection of taxes and user charges

– Economy in expenditure

– People's participation

– Database on local finances

– To maintain a local government profiler, directory, assets register, PRIA Soft, etc.

9. Most State Finance Commissions (SFCs) have recommended a medley of taxes, cesses, or even surcharge on State taxes. Given the fact that the collection of taxes at the local level is difficult, such type of efforts lead only to the escalation of administrative cost as each tax requires tax collection machinery. At times, the cost of collection exceeds the actual collection of a particular tax. To strengthen the revenue base of the local governments, SFCs should recommend measures to tighten tax administration for better compliance of existing taxes, rationalisation of taxes and recovery of cost through appropriate user charges.

10. The **power of *Panchayats* to impose and collect taxes and non-taxes** is significant to impart certainty and strength to *Panchayats*. From the list of taxes levied at local level, property tax, land cess, surcharge on additional stamp duty, tolls, profession tax, advertisement tax, non-motor vehicle tax, octroi, user charges, etc. contribute the maximum to the small kitty of own revenue, which contributes only six to seven per cent in the total expenditure of *Panchayats.* The property tax is one of the major tax contributes to maximum revenue for *Panchayats*. Only states like Kerala and Tamil Nadu collect maximum tax followed by Madhya Pradesh and Uttar Pradesh. Thetax capacity of *Panchayats* should be increased through allocation of more power to impose and collect revenue of the highest nature. Besides this, better-performing *Panchayats* in the collection of taxes should be awarded at state and national level.

11. The Constitution (One Hundred & First Amendment) Act, 2016, which implemented **Goods and Services Tax (GST)** regime, also affected article 243H of the Constitution, under which the *Panchayats* are authorised to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with procedure prescribed by the Legislature of a State. The Union and respective State governments should analyse and compensate *Panchayats* post-GST implementation while keeping the following points in concern:

    i. Making a list of all those taxes which have been withdrawn from *Panchayat* followed by data on revenue loss incurred to the own source revenue handles of *Panchayats* as a by-product of those withdrawals;

    ii. Measures taken with respect to allowing *Panchayats* on dual taxation attributes under the corresponding State GST legislations namely: Tax Deduction at Source (TDS) and Tax Collection at Source (TCS);

    iii. Making arrangement for additional grant-in-aid or compensatory funding to check fund inadequacy as a result of GST.

12. In the medium term, the States could bring the revenue expenditure of the local governments to the level of at least 10 per cent of total public expenditure. At present, the ***Panchayats'* public expenditure** in Karnataka as a proportion of total State expenditure is the highest followed by

Maharashtra. However, the pattern is different across the States. In the long run, the share of expenditure of the local governments in total public expenditure should be raised to about 20 per cent which is the international norm of developing countries.

Other points which can be taken into account areall expenditure incurred by *Panchayats* on basic services within the functions devolved to them under the State laws may be incurred after proper plans are prepared by *Panchayats*. This should be as per relevant rules, regulations, plans, processes, and procedures applicable in the state concerned. The expenditure by *Panchayats* should also be towards creating infrastructure or community assets within the area of *Panchayats* and incurring user charges to create an asset.

13. It is evident that Article 243A of the Constitution enables Gram Sabha to exercise such powers & perform such functions at the village level as the Legislature of State may, by law, provide. In conformity with this Constitutional provision, almost all states including select sample states have enshrined corresponding provisions in their respective State Panchayats legislations for ensuring smooth working of Gram Sabha, however, the de facto functioning of Gram Sabha should be critically analysed depending upon following parameters:

   i. Whether the State governments has taken any legislative or executive measures to put a check and balance on following issues:

      a) Minimum numbers of *Gram Sabha* meetings mandated to be held in a month/year;

      b) Prescribed mandated quorum for convening of meetings of *Gram Sabha*;

      c) State's specific guidelines or procedure regarding convening of meetings of *Gram Sabha*;

      d) Any disciplinary action taken by State government or an appropriate authority in case of non-convening of meetings of *Gram Sabha*& or violations of any prescribed provisions with respect to *Gram Sabha* across *Gram Panchayats* in the State.

   ii. Whether the *Gram Sabha* has been fulfilling its roles in following important matters:

      a) Preparation of the budget for the Gram Panchayat at the village level;

      b) Conducting social audits on major centrally sponsored schemes like Mahatma Gandhi National Rural Employment Guarantee Scheme/ MNREGS, Pradhan Mantri Awaas Yojana-Gramin/ PMAY-G, Deendayal Antyodaya Yojana/ DAY or any state sponsored schemes in order to find out any irregularities while preparing beneficiary list, BPL list, spending fund etc.

14. The Gram Panchayat Development Plan (GPDP) is an essential initiative launched by the Ministry of Panchayati Raj (MoPR), Government of India, under the aegis of tagline Sabki Yojana Sabka Vikas. Itis annual plan designed for every Gram Panchayat across country, where villagers have their consent on where the Panchayat fund should be spent. Its preparation

and implementation are mainly catalysed by twin factors namely: economic prosperity of Gram Panchayat and prevalence of social justice. The GPDP has also strengthened the role of Gram Sabha in the form of an authority which appoints GPDP at the village level.

The GPDP has to be participatory, comprehensive as well as in conformity with the 29 matters enumerated in the Eleventh Schedule of the Constitution. The MoPR has issued detailed guidelines with amendments made fromtime to time to carry out GPDP across *Panchayats*. The guidelines are given below.

Model Guidelines for Preparation of GPDP (2015);

i) Manual for Preparation of GPDP (March 2016);

ii) MoPR letter regarding preparing participatory GPDP to States (May 2016);

iii) Revised GPDP Guidelines (October 2018);

Further, in conformity with MoPR guidelines the departments of respective state governments including select sample states dealing with matters of *Panchayats* have also issued state equivalent guidelines; some of the states GPDPs are as follows:

a) Integrated Participatory Planning Exercise (IPPE) & GPDP Integration (Bihar);

b) Village Development Plan (Gujarat);

c) *Namma Grama*, *Namma Yojana* (Karnataka);

d) Smart Gram Smart *Panchayat* (Madhya Pradesh);

e) *Aamcha Gaon*, *Aamcha Vikas* (Maharashtra);

f) Our Village Our Plan (Odisha);

g) *Gram Panchayat Vikash Yojana* (Uttar Pradesh); and

h) Participatory planning at the *Gram Panchayat* level (West Bengal).

Others states should also work towards preparing &implementing GPDP in their *Gram Panchayats* keeping in view below mentioned focal points:

i) Improving basic civic services like drinking water, sanitation, etc. and public distribution system;

ii) The economic well-being of villagers and poverty-reducing measures;

iii) Human and Social Development measures in *Gram Panchayat*;

iv) Expanding the scope of Own Source Revenue (OSR) of *Gram Panchayat*;

v) Emphasis on *Gram Panchayat* infrastructure (physical, digital and human resource);

vi) Localising Sustainable Development Goals.

15. **Accountability of *Panchayats*** to its residents is the most important aspect of the existence of *Panchayat*s. It is important to note that mostly select states have adopted either *Lokayukta* or Ombudsman in *Panchayats* for checking corruption practices. The mere creation of bodies at the level of *Panchayats* has not helped in checking the leakages. These bodies need to be assigned more power to take strict actions against the complaints filed. In transparency

measures Madhya Pradesh has set an example by putting a web-enabled system namely *Panchayats Darpan* to keep a track record of the transfer of funds as well as the expenditure of the GPs, the same may be replicated by *Gram Panchayats* of other states. The other measure which can be taken for bringing transparency at the *Panchayat* level is displaying approved projects under GPDP on the walls of the *Panchayat* building by *Gram Panchayats.*

16. **Infrastructure-both physical and digital** are the key fundamental, provision for the smooth functioning of *Panchayats* which function for social and economic development at the grass-root level. As per the recent Demand for Grant 2019-20 report of the Standing Committee on Rural Development of the Ministry of *Panchayati Raj*,a) the proportion of *Gram Panchayats* without building, b) *Gram Panchayats* without computer and c) *Gram Panchayats* without internet connectivity in the country were 25 per cent, 47 per cent & 59 per cent, respectively. The effort should be made towards bridging this gap by building *Panchayats Bhawans* & attached infrastructural arrangements for smooth functioning of *Panchayats* across all States. With these infrastructures, there is also a need to have trained manpower to execute these facilities for the benefit of the people.
17. There is a need to empower the human resource working at the level of *Panchayats* through speeding up the extensive **training and capacity-building** measures. As per the second report of the Standing Committee on Rural Development (2019-20) of the 17th *Lok Sabha*, which was laid before the Parliament in December 2019, it has been highlighted that staff availability in most of the *Gram Panchayats* across States is quite low. This leads to responsibility burdening of *Panchayat* Secretary, who has to deal with five to six *Gram Panchayats*at a time. There is a need to address this issue of lack of manpower at *Gram Panchayats.*There is a need forrobust infrastructure and capacity building measures through state-level institutions. Another thing which can be looked upon for improvement is fund allocation to *Panchayats* for capacity building which has been inconsistent. For example total funds allocated for ten select States towards capacity building and training amount to Rs. 292.73 crore in 2014-15, Rs. 81.42 crore in 2015-16, Rs. 330.08 crore in 2016-17, Rs. 354.92 crore in 2017-18 and Rs. 315.95 crore in 2018-19. The budget allocation for training needs to be more predictable and consistent for the strengthening of *Panchayats.*
18. **ICT measures** in *Panchayat* aim to transform the latter into symbols of modernity, transparency and efficiency. A series of awareness campaigns need to be conducted for functionaries of *Panchayats.* Government of Andhra Pradesh organised *Janmabhoomi-Maa Vooru* Programme (JBMV) from 2nd to 11th January, 2017. Through *Janmabhoomi-Maa Vooru* Programme (JBMV) all District and *Mandal* level officials were trained on digital modes of financial transactions. Similarly in Maharashtra, every village in the State has Village Correspondence and they are trained to create awareness and hand holding supports in the villages for a digital mode of transactions. The same kind of awareness needs to be imparted in all the states. There can also be effective use of Social Media to encourage people to participate at large.

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