



Pratidhwani the Echo

A Peer-Reviewed International Journal of Humanities & Social Science

ISSN: 2278-5264 (Online) 2321-9319 (Print)

Impact Factor: 6.28 (Index Copernicus International)

Volume-VI, Issue-III, January 2018, Page No. 201-206

Published by Dept. of Bengali, Karimganj College, Karimganj, Assam, India

Website: <http://www.thecho.in>

Panchayats' Necessary Strategies to achieve Financial Autonomy

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Abstract

In India, the local self governments like the Panchayati Raj Institutions and Municipal Corporations are considered as the effective mechanism of realizing the goals of democratic decentralization and have been considered as the most effective measure to bring in economic development to people at lower strata of the society. Therefore it is justified to endow the local governments with greater powers, functions along with functional and financial autonomy. Since India is rural base country, the importance of Panchayati Raj Institutions (PRIs) is more significant for economic development of the country. Recognizing the importance of the Panchayati Raj in India, three tiers Panchayati Raj Institutions (PRIs) have been given constitutional recognition through the enactment of the 73rd Amendment of the Constitution in 1993. After the 73rd Amendment of the Constitution of India, much attention has been drawn towards the state-local bodies' relationship and particularly on the crucial issue of financial and functional devolution from the state to the local bodies. The Article 243(H) and 243(I) of the 73rd amendment have made various provisions of financial sources for the PRIs. Unless these provisions and recommendations are in practice in the sense of achieving the financial autonomy, the objective of the 73rd amendment of the Constitution of India of strengthening the PRIs as a mechanism of rural economic development will not be realized. Financial autonomy will be possible only when the PRIs can generate sufficient funds from own sources to meet the local developmental needs without depending upon grants-in-aid. In this paper an attempt is made to throw light on various measures that may be undertaken to achieve financial autonomy by the PRIs and more particularly of Assam. Again since the functioning of Gaon Panchayat (GP) is more crucial for effective decentralization, therefore, more emphasis is given to the Gaon Panchayat.

Keywords: Panchayats, Financial autonomy.

Introduction: In India, the grass-root government is the local self governments like the Panchayati Raj Institutions and Municipal Corporations. These governments are considered as the effective mechanism of realizing the goals of democratic decentralization and have been considered as the most effective measure to bring in economic development to people at lower strata of the society. Therefore it is justified to endow the local governments with greater powers, functions along with functional and financial autonomy. Since India is rural

base country, the importance of Panchayati Raj Institutions (PRIs) is more significant for economic development of the country. Recognizing the importance of the Panchayati Raj in India, three tiers Panchayati Raj Institutions (PRIs) have been given constitutional recognition through the enactment of the 73rd Amendment of the Constitution in 1993.

The 73rd amendment of the Constitution of India has made various provisions under the Articles 243 A, B, C, D, E, F, G, H, I & K for the Panchayati Raj Institutions. After the 73rd Amendment of the Constitution of India, much attention has been drawn towards the state-local bodies' relationship and particularly on the crucial issue of financial and functional devolution from the state to the local bodies. The Article 243(H) empowers the state legislatures: (a) to authorize by law, to levy, collect and appropriate specified taxes, duties, fees and tolls on Panchayats; (b) to assign state taxes, duties, fees and tolls to Panchayats for specific purposes; (c) to provide grants-in-aid to the Panchayats from the Consolidated Fund of the state; (d) to constitute specified funds for creating all money received by or on behalf of the Panchayats and for their withdrawal. The Article 243(I) stipulates that the state government has to form successive State Finance Commissions for a tenure of five years to review the financial position of the Panchayats and to make appropriate recommendations to improve their finances. Unless these provisions and recommendations are in practice in the sense of achieving the financial autonomy, the objective of the 73rd amendment of the Constitution of India of strengthening the PRIs as a mechanism of rural economic development will not be realized. Financial autonomy will be possible only when the PRIs can generate sufficient funds from own sources to meet the local developmental needs without depending upon grants-in-aid. In this paper an attempt is made to throw light on various measures that may be undertaken to achieve financial autonomy by the PRIs more particularly of Assam. Again since the functioning of Gaon Panchayat (GP) is more crucial for effective decentralization, therefore, more emphasis is given on the Gaon Panchayat.

Why the financial autonomy of the PRIs has not been possible?

In spite of having various constitutional provisions for financial resources, the practical financial scenario of the PRIs is far ahead to reach the goal of financial autonomy due to various constraints faced by the Panchayats. **Firstly**, to collect revenues from different sources, each Panchayat should have a database. But in Assam, such types of initiatives are not practiced. It should be mentioned that a database on the finances of PRIs in Assam is virtually non-existent. The Second Assam State Finance Commission had recommended the creation of a data bank for budgetary data, social infrastructure data, economic infrastructure data and organizational data for the PRIs. Similarly, the first Assam Finance Commission had recommended for the creation of a databank for the PRIs. However, the situation has not improved at all. Even when the Third Assam State Finance Commission circulated its questionnaires for data collection from the PRIs in August/September 2006, it was not able to get any information from either the PRIs or from the concerned departments for more than a year in spite of 14 reminders. **Secondly**, The existing mechanism of the own revenue collection, which basically consists of a review of the appropriate legal provisions is very lengthy and complicated. The Gaon Panchayats (GPs) derive their taxation powers

from the section 25 and 26 of the Assam Panchayat Act, 1994 read with the Rule 46 of the Assam Panchayat (Financial) Rules, 2002. Though under these sections, the PRIs are empowered to levy the various kinds of taxes like tax on houses and structures within the local limits; tax on trades and callings carried on or held within the local limits of their jurisdiction on the basis of the total annual income accrued from such trades and calling and to impose duty's or fees, but all are possible only after framing the bye-laws which have to be approved by the different tiers of the Panchayats and finally by the State Government of Assam. It has also been prescribed that the taxes, etc., shall be imposed, assessed and realized at such time and in such manner as may be prescribed. Any person aggrieved by the assessment, levy or imposition of any tax or fee by the Gaon Panchayat, may appeal to the Anchalik Panchayat. In turn, any person aggrieved by the order of AP may appeal before the Zilla Parishad, whose decision in this regard shall be final. The Government of Assam may, however, suspend the levy or imposition of any tax or fee at any time and rescind such imposition in consultation with the Zila Parishad. **Thirdly**, the taxes assigned to the GPs are not elastic or very productive. The autonomy of GPs in exercising them is very much restricted. There is need to make the taxes and non-tax revenue of the GPs more productive and elastic through rationalizing the tax base, rates, tax administration along with imparting greater autonomy. **Fourthly**, an important point regarding the own revenue mobilization of the GPs is that most GPs lack institutional capacity for performing the entrusted functions. The institutional capacity of the PRIs depend primarily upon three factors, namely, (1) Human Resource Development, (2) Organizational Development and (3) Institutional and Legal Framework. These three important parameters together contribute to the strengthening of the financial resource mobilization, financial management system and finally fiscal capacity.

Strategies for the PRIs for achieving Financial Autonomy: For achieving the financial autonomy, the Panchayats have to collect the own revenues from the different own tax and non-tax sources besides the assigned taxes and shared taxes. For being the effective organizations of rural economic development, the Panchayats should have uniformity between the assigned functions and the financial resources. There is no doubt that since the Gaon Panchayats have to bear the responsibilities of the state at the village level, it is the duty of the state government to devolve funds and encourage the Gaon Panchayats to raise their own resources to enable them to discharge their functions effectively for the satisfaction of the people. Unless the financial autonomy of the Panchayat is achieved in real sense and in proportion to the responsibilities, it can not serve as an effective local government for local economic development.

For achieving the financial autonomy as local-self government, the Panchayats have to collect the own revenues from the existing sources as well as they have to broaden their resource bases. There are enormous opportunities for the Panchayats to increase the flow of own financial revenues by the proper use and maintenance of existing tax and non-tax sources and by broadening the resource base. For this purpose, each Panchayat has to make a socio-economic survey of the locality to collect data.

There are great potentialities for the Panchayats to develop properties to generate revenues in future. Generally, Panchayats have been utilizing the state or central governments' funds mainly for consumption purposes and for developing public infrastructures, but a little importance is given to invest the funds for productive purposes.

Generally, each Panchayat has pilgrimages or places of public worship within its jurisdiction. The Panchayats may make lighting, sanitary and drinking water arrangement at these places and may collect fees for supplying those. The Panchayat can collect revenues from the festivals or fairs held in the villages under its jurisdiction by making some provisions of lighting, drinking water, etc., to collect fees.

Though there is a provision of collecting fees from daily or weekly markets under Panchayats' areas, but the fees are not collected by the Panchayats rather they are collected by the Mahaldars (broker of the market). By providing proper sanitary arrangement and regular cleaning, the Panchayats may collect more fees.

Generally the Panchayats receive a large number of applications for licenses, permits as well as for various statutory and non-statutory matters. The Panchayats may make the provision of affixing court fee stamps in all these applications and thereby revenue may be collected for the Gaon Panchayats' exchequers.

Though there is a provision of imposing stamp duty on all payments for admission to any entertainment, but practically it is not done by the Panchayats. Since generally in each Panchayat area, some entertainments like mobile theatres, etc., are held on the occasion of festivals therefore the Panchayat may collect a sizeable income by imposing stamp duty.

In municipal area, prior permission is required for construction, re-construction and extension for which specific fees have to be paid to the municipal authority. If this rule is also applicable in case of the Panchayat, then it may be good source of revenue to them. It will also enable the Panchayats to collect information regarding the number of houses that is coming up in their jurisdiction.

In order to widen the tax base, the Panchayats need to explore additional sources of revenues. Sectors like transport, tourism and infrastructures, etc., have grown remarkably and a part of this growth has also percolated to the rural sector. The Panchayats need to look beyond the traditional areas of lands and buildings and augment their resources by operating in newly emerging sectors through innovative tax / non-tax measures, e.g., fee on tourist vehicles, special amenities, restaurant, theatre, cyber café, etc. The Panchayats should gradually shift itself to some important utility services, such as, transport, water supply and power distribution, etc., on a commercial basis. This will not only ensure better service delivery but will also enable the Panchayats to make some profit and generate additional revenues for themselves.

The 73rd Amendment of the Constitution of India has left the important matters such as implementation, service delivery (including local capacity building) and transfer of responsibilities and powers to the rural local bodies at the discretion of the state legislatures, etc. Consequently, though the expenditure responsibilities of the local bodies are extensively enhanced, there is no law to ensure a corresponding assignment of funds to

match the additional responsibilities. The decisions as to which taxes, duties, tolls and fees should be assigned to the local governments and which should be shared by the state government with them continue to be with the state legislatures. An appropriately designed transfer system is needed to balance spending needs with the local resources.

The taxes assigned to the Panchayat are not elastic or very productive. The autonomy of the Panchayats in exercising them is very much restricted. There is need to make the tax and non-tax sources of the Panchayats more productive and elastic through rationalizing the tax base, rates, tax administration along with imparting greater autonomy to the Panchayats.

The State Government of Assam and the Assam State Finance Commission should lead policy work in respect of exploring the appropriate tax and non-tax revenue assignments to the Panchayats as well as the ways and means of administering and enforcing them to achieve a greater linkage between the revenue raising and the spending decisions at the local level. The State Government of Assam should undertake measures to rationalize the list of taxes that may be levied in order to improve efficient administration.

The State Government of Assam should take steps to strengthen the administrative and enforcement capacity of the Gaon Panchayats to collect the own revenues through frequent training of the tax collectors to determine and collect tax demands in accordance with the rules and regulations.

The existing legal system of the revenue collection by imposing taxes, etc., is very lengthy and complicated. Though the GPs are empowered to levy the various kinds of taxes like tax on houses and structures within the local limits; tax on trades and callings carried on or held within the local limits under its jurisdiction, etc., but all are possible only after framing the bye-laws which have to be approved by the AP and ZP and finally by the state government. Ultimately, the whole system of mobilization of the own revenue from the own tax and the non-tax sources depends on the State Government's will and effort. This legal system of the own revenue collection should be simplified in such a way so that the Gaon Panchayats can independently take the decisions regarding the taxation and others without much interference from the upper layers of the governments.

Conclusion: The financial autonomy of the Panchayats is considered as an important parameter for effective local government. Unless the Panchayats can mobilize the sufficient amount of revenues from the own sources, financial autonomy will not be possible and the Panchayats will not be able to serve the locality as effective local-self governments. Therefore, efforts must be taken by the State government and Central government, elected representatives and the individuals of the locality to make the Panchayats financially strong and independent.

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