

Panchayati Raj Finances in Chhattisgarh State, India

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Abstract:

Decentralized government at the local level as a sequel to the 73rd Constitution Amendment will be key player in national development and local service delivery. To perform these roles they need to be effective and efficient in mobilizing and using financial resources. The experiences so far with regard to financial position of panchayats are not encouraging as it is more or less a dependency syndrome. A major concern now is to see how the decentralized system works, particularly in view of disability of mobilizing resources. The political thinking in India appeared to be increasingly converging on the Panchayati Raj for ensuring democratic and decentralized rural governance by involving people at the grassroots level for the programmers of economic development and social justice. It is also believed that delivery of goods and services to people is most effectively done by government agency close to the people.

An institution cannot deliver goods without adequate resources. Therefore, funding or finances of local self-governing body have important implications for local autonomy, development and democratic process. Further, it is finance that governs the ability of the local institutions to plan and implement the functional responsibilities. An ideal system of local self-government should have freedom to raise taxes and to decide on how the resources are used rather than rely largely or wholly on resources allocated by the higher tiers of the government.

The 73rd Constitutional Amendment added a new dimension to Indian federal finance system as there is a need for better sense of direction and clear evolution of objective criteria and norms for inter-governmental transfer of resources, It is also expected that the Panchayati Raj finance system will undergo massive change in the wake of constitution of State Finance Commissions and their recommendations as intended by the policy makers. The new dispensation has conferred constitutional status on PRIs. Different states have different approaches and devolved power and functions according to their requirements.

Key words: Decentralized government, 73rd Constitution Amendment, Panchayati Raj finance system, Local self-governing body, PRIs

INTRODUCTION:

In a federal set-up, arrangement for inter-governmental financial transfer is essentially a major aspect of public finance. This aspect has become more important when it comes to local government system though they are empowered to raise and utilize financial resources. So far the issues pertaining to mobilization of finance of the Central and State governments and their existing financial relations are concerned, several studies have been conducted in the past. But, when the question involving the transfer of finance between states and local governments arises, it remained a relatively less explored area particularly in the context of new dispensation of panchayats in the country as a sequel to the 73rd Constitution Amendment. More so, when the vertical imbalances in terms of resources and expenditure responsibilities are emerging between different layers of government, it calls for transfer of resources form higher level of government to the lower. Keeping the importance and imperatives of fiscal transfers in view, this study has been undertaken to examine critical aspects of State-panchayat fiscal relations in the context of recommendations of

the state Finance Commission and response thereupon by state government.

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OBJECTIVES OF THE STUDY:

The broad objectives of the study are as follows in the light of the above discussion-

- ✓ To examine the existing status of PR finances with reference to their composition and trends (both receipts and expenditure);
- ✓ To assess the revenue mobilization effort of the PRIs on both tax and non-tax spheres;
- ✓ To analysis the existing system of devolution of resources on PRIs through assigned revenues and grants-in-aid and their rationale and adequacy.
- ✓ To understand the existing system of preparation of budgets and accounts; and adequacy of auditing arrangements; and
- ✓ To identify the deficiencies and suggest measures to improve the financial administration of PRIs.

METHODOLOGY AND DATA COLLECTION:

In order to achieve the objectives of the study, various methodological tools were adopted for data collection. Data was collected from primary and secondary sources. A fieldwork was conducted to collect data pertaining to various aspects of the study from different levels. To analyse trends in flow of funds and composition of finances of panchayats at each level, five-year data (wherever available) was collected from the selected units. Besides, to gain deep insights, discussions were held with the concerned officials and elected functionaries of panchayat bodies at each level including officials at the State level. Also, to obtain perception and viewpoints of the people with regard to the finances of panchayats and issues relating to it, discussions were also held with the cross-section of the society in the sample area. For the purpose, PRA method was used to elicit information. Apart from this, 5 Gram Sabhas were convened in 5 village panchayats to have free and frank discussions on the issues pertaining to the study. Also, observation method was used to put things in the right perspective.

For the purpose of data collection, a district was selected on the random & performance, and accordingly, Dhamtri, Kanker, Raipur, Durg and Korba district was selected. Within the selected district, One Block panchayats were selected on basis of good performer in terms of implementation of various programmes. Subsequently, One village panchayats were selected in each Janpad Panchayat, who were good performers in terms of development programmes. Besides, village panchayats were selected on the backwardness criteria as also to maintain geographic spread of the district.

Sample Size -

District Panchayat – 5 Districts (Dhamtri, Kanker, Raipur, Durg and Korba)

Block Panchayat – 5 Block Panchayat (Nagri, Bhanupratppur, Tilda, Durg and Pali)

Gram Panchyat - 5 Gram Panchyat (Balargaon Ravan Sambalpur Machundur Hardibazer)

FINANCIAL COMPOSITION OF PANCHAYATS:

In order to examine State-Panchayat Fiscal relations, it is essential to review the financial composition of panchayats. Notwithstanding the fact that panchayats are suffering from inadequacy of resources but also they are in a position to generate sufficient income to reach to the level of self-sufficiency Generally, the finances of panchayats are form three major sources (i) own resource, which include tax and non-tax revenue (ii) assigned revenues and (iii) grant-in -aid. In this paper we will examine only one source of revenues, we will also examine the overall trends and patterns of expenditure of panchayats so as to ascertain their fiscal needs in light of functional devolution.

TAX-REVENUES:

The revenue raising power is important in view of self-sufficiency and fiscal autonomy. Generally, panchayats at each level are assigned number of taex but majority of them are not buoyant and elastic source. Besides, panchayats have several problems in tax administration. The CG Panchayat Act, 1993 empowers panchayat to levy and collect several taxes.

Gram Panchyat- In the Act Section 77 (along with the Schedule I, II & III) provides taxation powers of Gram Panchayat and Block Panchayat. These bodies are empowered with two types of taxation powers – (i) obligatory taxes, and (ii) optional taxes and fees. Among the important obligatory taxes, Gram Panchayats are empowered to levy property tax, lighting tax, profession tax and local market tax. In the optional tax items, important is vehicle tax and water tax. The services rendered by panchayats are usually unsatisfactory hence people

are not willing to pay taxes. More so, the available infrastructure is inadequate to the extent that better delivery of services cannot be provided.

Block Panchyat – Block Panchyat has only one compulsory tax under their domain, that is, entertainment tax. Among the optional taxes, Block Panchyat can levy development tax on agriculture land and additional stamp duty. The rates of entertainment tax have been prescribed under rules notified by the government.

District Panchyat – District Panchyat has been empowered to increase the rate of cess on land revenue to the extent of Rs.10 on every rupee of land revenue. This additional cess income will be distributed among District Panchyat, Block Panchyat and Gram Panchyat in the ratio of 25:25:50 respectively. Surprisingly, no District Panchyat has exercised this power so far and hence no income is generated.

NON-TAX REVENUES

Gram Panchyat–Gram Panchyat have been assigned two types of sources, that is, obligatory and optional sources. In the obligatory non-tax sources, Gram Panchayats are empowered to levy market fees and fees on registration of cattle. Among the optional category, a good number of items have been listed for levying.

Block Panchyat – In the non-tax sources of revenue, Block Panchyat are empowered to levy fees for any license for use and occupation of land or other property. In addition to this, they are empowered to auction/lease ferry services and impose fines on defaulters of payment of tax.

District Panchyat –Among non-tax sources, District Panchyat have been vested with power to raise resources from

water bodies (tanks) within their jurisdiction. District Panchayat sources of revenue from non-tax are fishery rental (leasing of tanks), rent or fee from property. Therefore District Panchayat has limited sources of non-tax revenue.

TRENDS IN LOCAL REVENUE MOBILISATION

After discussing about the tax and non-tax sources and their prevailing rates in the State, we will now examine the trends in local resource mobilization by these bodies. In fact, lots of variations exist across the states in the overall magnitude of resources mobilized by panchayats from taxes and non-tax sources. The wide variation in magnitude of incomes of panchayats from one State to another and even among the panchayats within one State is due to size of panchayats in terms of population coverage. Discussions presented below will broadly give an idea about the trends in the internal resources mobilization by these bodies.

Tax-Revenues-

Five years data of total receipt from all sources itemwise for sample village. The per capita income from any taxable item is either slightly higher than 40 rupee or less than 40 rupee. Increase in per capita income from property tax, profession tax, water rate and lighting rate is noticed over a period of time, but it is not much significant. Other two taxable items (Drainage tax and Building rent) does not show increase rather it is fluctuating. It is expected that property tax and profession tax could have given more income to panchayats, as these items have scope and potential, but it is not. Among the taxes, contribution of water tax is the highest and more than other sources and it is showing steady increase. Even, the per capita income from all taxable items put together, is not significant and it ranges between rupees 10.68 to 20.98 Rupees. Nevertheless, it is showing increasing trends steadily and it has become more than Three years.

Tax revenue to the total receipt for Gram Panchayat is minimum 8.5 per cent in 2012-13 and maximum 45.87 per cent in 2014-15. Thus, the contribution of tax revenue is not much significant and obviously Gram Panchayats are depending much on other sources. The percentage increase in tax revenue has gone up maximum to 71.5 per cent in 2015-16 and minimum to 9.5 per cent in 2010-11. Nevertheless, it is always increasing and it has become more than double in absolute terms in five year period. Such wide variation reflects on the mechanism of tax collection and it may be due to the collection of more arrears in a particular year and increase in rates. Also, the sharp variation in the increase justifies the scope and potential of available tax sources, if the tax administration improves.

Gram Panchyat-The income from tax sources range between Rupees 55 Lak. Gram Panchyat Balargaon Block- Nagri District- Dhamtri, to 10.5 Lak. Gram Panchyat Ravan Block- Tilda District- Raipur, Three others have GP Sambalpur 11.8 Lak., GP Machundur 24.6 Lak., GP Hardibazer 41.8 Lak. It can be seen that GP Balargaon has sizeable income from tax revenue to the total internal resources (maximum 85%) and it shows increasing trend and the annual average income from tax revenue comes to 51% which is encouraging. But, in case of other sample Gram Panchayats, is 45% to 62%. The per capita income from tax revenue in the sample GPs varies from minimum of Rs145 in GP Ravan to maximum of Rs 916 in GP Balargaon. It can, therefore, be said that there is a scope for mobilizing resources through tax income. It depends more on local leadership to take initiative to raise revenue from the taxable items assigned to GP.

The reason for the higher tax collection of one sample GP Balargaon & Hardibazer was the personal efforts of the Sarpanch. The Sarpanch of this Gram Panchyat pointed out that he has taken initiative and interest in mobilizing tax revenue. The efforts in this direction were to increase the tax

amount of house tax, collection of arrears of street light, collection from Kanzi house, Animal Market, Mobile Tower Satlutation , Water tax and imposition of profession tax. It is a pointer for other Gram Panchayats that if local leaders take special effort and initiative then they could realize the gole.

Block Panchyat – The tax revenue of Block Panchyat is mainly from entertainment tax. The other tax source is the development tax on agriculture land, which is not realized by any Block Panchayat. Total receipts of sample block panchyat of the 5 year period. It shows that collection of revenue from taxes is only from entertainment tax. The per capita income form this source is less than Rs 12000, it has fluctuating trend. In rural areas in the state, such entertainment performance is not static, it is occasional in nature, and hence income from this source is not assured. The percentage increase in income for this source is fluctuating and contribution of tax revenue to total receipt of block panchyats is between 1 to 7 percent. In sample block panchyats, the income from this source is not encouraging. The annual average percentage of tax income to the total internal resources of sample block is 3 to 5 percent. The per capita tax revenue for sample block panchyats is quite low and negligible.

Non-Tax Revenues-

The non-tax revenues are another important source of internal resources of these bodies. The items under non-tax sources are already mentioned above.

Gram Panchyat-In respect of non-tax revenues of Gram Panchyats, it has good number of items to mobilize resources and has better scope as compared to tax sources. There are ten items listed and data (5Year) reveals that the per capita income is increasing and it has reached to about Rupees 12 in 2010-2011. The per capita income from this source is about double than tax revenue. Among the items of non-tax sources available

with Gram Panchayats, the contribution is more from fees, market rate, ferry services and kanji house. The share of non-tax revenue to the total receipts of the Gram Panchayats varies between 3 to 8 percent which is more than the tax income. The percentage increase in the revenue from this source is showing increasing trend. In the sample Gram Panchayats, the annual average income from this source range from ten to thirty-five thousand rupees, which is reasonable as compared to tax revenue.

Another important area for raising income is water bodies. In the State, invariably all sample districts have water bodies through which they earn ferry rent or leasing tanks for fisheries activities. As Gram Panchayats are vested with the powers to lease out tanks below 10 hectare, this has good scope to raise revenues.

Block Panchayat – The revenues augmented by block Panchayats are generally from ferry services, leasing out fisheries ponds, fairs and festivals and interest from deposits. That non-tax revenue of block Panchayats is substantial and more than tax revenue. It shows increasing trends and it has gone up by 9.8% in 2010-2011. The trend is highly encouraging. The per cent share of non-tax revenue to total receipts of block has gone up to 45 per cent which is substantial.

Among the non-tax revenue sources, the contribution from interest on deposits is highest than any other item. In the sample Block Panchayats also, Nagri was receiving very high income from interest on deposits and from auction of ferry ghat. As also, the non-tax income in sample Block shows increasing trend. In one sample Block (Bhanupratappur) realization of non-tax revenues is not regular because it is tribal area.

District Panchayat – Generally, District Panchayat has income from non-tax sources. Among them, the items, which are very common, are rent from fisheries, rent from properties and interest from deposits. The data pertaining to non-tax revenue

for samp district panchyats that the per capita income from this source has increased from Rs 6.8 to 9.5 during 2010-11 to 2015-16.

The new dispensation of District Panchyats has been empowered to lease out fisheries tank with average water spread of more than 100 to 2000 hectares. This is new source of income with good scope provided t is properly utilized. Now ZPs are also getting administrative service charges from 2010-11.

MEASURES REQUIRED FOR BETTER LOCAL REVENUE MOBILIZATION –

The plausible measures needed to improve the financial situation of panchyats on the basis of identified problems are given below. These measures will have direct bearing upon the mobilization performance, if it is considered for future action.

Local leaders of panchyats as well as functionaries responsible for finances should have better understanding of financial powers and fully acquainted with rules/regulations to raise resources within their purview. Undoubtedly, finance is becoming increasingly complicated technical subject and particularly the elected representatives would find it difficult to appreciate the implications on the financial structure of panchayats. Therefore, a specific sensitization programmed focusing financial matters should be introduced for all functionaries.

Another important aspect is to activate Gram Sabha and use it as a forum to build awareness among people, especially in the matters relating to taxes, payment of taxes, etc. Once awareness is built towards appreciation for value of money and imperatives of development, than, people will cooperate and proverbial attitude not to pay taxes will definitely reduce. This will facilitate in the revenue mobilization endeavour.

The newly appointed 'Village Secretary' at the GP level should be made responsible for collection of taxes and non-tax revenues. Alternatively, it may be privatized and task may be

assigned to a local person on commission basis, as experienced elsewhere.

Levying of new tax items from obligatory and optional items much depends upon the quality of services rendered by these bodies. People may be ready to pay taxes if services are prompt and of good quality. Therefore, up gradation of infrastructure facilities and quality services needed. Among the tax avenues to augment resources.

Revision of rates of tax and non-tax items should be done objectively, without any motive. These bodies may be given autonomy in these matters. Periodic assessment of taxes should be adhered to. A scheme of incentive may be introduced for such panchayats who collect cent per cent revenue.

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