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**PRIA**

# research report

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## Panchayati Raj Institution and Finances: An Interim Report

## INTRODUCTION

The Panchayati Raj Institution is as old as Indian civilisation. In ancient India this informal body was mainly responsible to maintain social harmony and social justice. During the British regime, the power of local self-governed bodies like the Panchayats was curtailed and emphasis given to bureaucratic systems of administration. After Independence, the Panchayati Raj Institution was revived with its own democratic bases and characters. The Article 40 of the Indian Constitution, as a part of the Directive Principles of State Policy, entails that "the State shall take steps to organise village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government". Hence the historic Panchayati Raj came into being with the concept of 'grassroots democracy'. Further, the Balwantrai Mehta Committee was set up to involve the people in the process of development which recommended "the establishment of inter-connected three-tier organizational structure of democratic decentralisation at the village, block and district level".

## SCENARIO OF ORISSA

Since 1990, Government of Orissa has taken steps to revive the three-tier Panchayati Raj System in order to realise the goal of administration and decision making with the participation of the people themselves at grassroots level. For details refer Annexure I Especially, Orissa Gram Panchayat Act, 1964 and Panchayat Samiti Act, 1957 were amended in 1991, 1992, 1993 and 1994 respectively. The Orissa Zilla Parishad Act, 1991 was also enacted in order to transfer the power of planning, control and supervision of developmental activities to Zilla Parishad at district levels. This act has been extensively amended to bring about conformity with the provision of the 73rd Constitution Amendment Act, 1992. At present, the State of Orissa constitutes of 5264 Gram Panchayats and 314 Panchayat Samities which covers 51,574 villages with population of 23.3 million. The average population per Gram Panchayat is 5277 and village 118 in number. The Gram Panchayat election which was conducted in the year 1992, after a lapse of eight years, the managerial responsibilities was handed over to the elected representatives. During the election, 92,870 representatives got elected to the Panchayat bodies and out of which 33,628 were women.

There were 314 Chairmen, 314 Vice-Chairmen (female), 5263 Panchayat Samiti members, 5262 Sarpanchas, 5255 Vice-Sarpanchas (female) and 76,789 ward members. During that year (1992) the election to Zilla Parishad was not held.

After the change of State Government in 1995 the elected bodies of Gram Panchayats and Panchayat Samities were dissolved with a pretext that the elections of the said bodies were not held duly according to the 73rd Constitutional Amendment norm. Ironically, the State Government later neither followed the principles of 73<sup>rd</sup> Constitution Amendment nor the State Gram Panchayat Act to reconstitute these bodies in the scheduled time i.e., within six months of dissolution. Several petitions were filed in State High Court and Supreme Court on this issue. After verdict of Supreme Court, finally in January 1997, after a lapse of one year and a half, the election was held for the three-tier system in Orissa with necessary amendment in State Act (Find the details of elected PRI representatives in Annexure II). For the first time the election was held for the Zilla Parishad in this year. But the linkages across of the tiers have not been established so far. Zilla Parishad is yet to get its power and functions to work independently, so also Panchayat Samiti and Gram Panchayat bodies.

The 73rd Constitutional Amendment has created space for the constitution of State Finance Commission for the devolution of funds to the local bodies and strengthen of the grassroot democracy. Now, even after 3 years of coming into being of the Orissa State Finance Commission, the proposed action is yet to be initiated. The detail outlines of PRI and SFC is as follows:

## **PRI AND STATE FINANCE COMMISSION - AN OVERVIEW**

PRIs have been conceived as institutions of self-governance which would be in charge of formulation and implementation of the schemes of economic development and social justice. In order to facilitate devolution of powers and functions upon the PRIs, a new schedule, viz the XI schedule has been added to the constitution to give an illustrative list of subjects for the purpose. Most schemes indicated there would be financed out of the Plan funds.

Since the PRIs would also be the implementation agency (line agency) it would mostly be executing the plan schemes for which money would come from the Plan funds. Simultaneously, some other expenditures which the PRIs would be duty-bound to undertake, are to be financed from non-plan funds. To this extent, it is necessary to specifically ponder over the requirement and principles of assigning the resources to the PRIs so as to make for a sound finances system for the Panchayat.

### **Transfer of Power: Need for a Sound System**

Since the PRIs are loaded in favour of development functions and programmes most of which are schematic, PRIs still largely be sustained by development funds and grants-in-aid. SFCs ought to be able to suggest measures to ensure that there is a certain predictability and regularity in what is being devolved. However, PRIs must also be able to levy and collect their own taxes. Raising and managing their own resources will reinforce the concept of local self-government which would strengthen PRIs.

#### **a. Taxes and Grants**

Taxes, levies, etc. for which Panchayats are having power under the state legislation would be shared between the State and the Panchayats on the one hand and between various levels of Panchayats on the other. This will form one portion of the total receipts for the Panchayats. There has to be adequate measures to augment the current receipt of panchayat at various levels in keeping with the requirement of the Panchayats, the scale of their operation and the duties and functions entrusted with them.

Grants-in-aid from the central government or from the state government to the Panchayats for execution of the Plan schemes would continue as such. However, for the purpose of resource mobilisation, it should be brought within the boundary of the consideration by the state finance commission. Therefore, it appears advisable that the State Finance Commissions not only deal with the non-Plan items, they also deal with the Plan funds.

There are many aspects of Panchayat finances warranting immediate attention. Apart from the levy of taxes and their collection, the sharing of tax between the State and the Panchayat and among the Panchayats themselves is also an important issue to ponder over. The Panchayat receipts can come from a host of taxes or cesses which can be levied by the Panchayats under the law. This would include house tax, building tax, market tax or cess, tax or cess on agriculture and allied activities like pisciculture, aquaculture, dairy activities, etc. surcharge on stamp duty, and revenues, entertainment tax and other special purposes taxes. It would also include local taxes like professional tax, building tax, duty on transfer of property, service tax for the public convenience and such other taxes exclusively for and by the local authority.

#### **b. Sharing Tax Revenue**

There are many taxes which are levied by the state but the tax payers come from the rural areas. These taxes need to be shared between the State and the Panchayats on well-designed principles. This would include sharing of sales tax, motor vehicles tax, certain types of land cess, irrigation cess, plantation tax on commercial crops, etc.

As already explained, taxation will form one portion of the total receipts of Panchayats. The rest would come by way of grant by the state government or by devolution of Plan funds and non-plan funds.

Depending upon the necessity and the predisposition of the Panchayats, PRIs are free to raise loans and to that extent increase their receipts. Of course, the loans will have to be shown as liability and necessary steps to discharge the same have to be ensured in the Panchayats budget.

### **c. Cash Management by Panchayats**

The state finance commission can also suggest methods of cash management by the Panchayats. The finance commission can help PRIs in educating them on expenditure on various items of economic development, social justice. establishment and other schemes., This should receive adequate attention both in terms of training of staff engaged in funds management and redeployment or expansion of the existing staff strength to facilitate effective funds management.

### **Conditions of Financial Devolution**

The very first question that arises in regard to financial devolution relates to the conditions that state legislature may impose on the local bodies. This question has to be addressed in the context, no doubt, of the devolution of functions, responsibilities and authority to these bodies. The relevant provisions (Articles 243 Hand X) speak of "in accordance with such procedure and subject to such limits" where the local bodies are authorised to "levy, collect and appropriate" taxes, etc. But they speak of "subject to such conditions and limits" in the context of assigning to the local bodies "such taxes, duties, tolls and fees levied and collected by the state government". Could this wording be interpreted to mean that the freedom the state legislature enjoys with regard to financial devolution is to impose limits both on the powers "to levy, collect and appropriate" taxes, etc. and access to those "levied and collected by the state government"? Interestingly, the provisions with regard to grants• in-aid to the local bodies do not speak of the conditions that may be attached to them.

While for the local bodies to satisfactorily perform the functions they are assigned, they will have to have matching powers to raise funds or matching access to funds raised by the state government, ideally speaking, the local bodies should have adequate powers to raise matching resources of their own., They cannot pass on the blame for unsatisfactory performance to the state government.

### **Scope of SFC - Plan and Non-Plan Functions**

While deciding the scope. of SFCs, one will have to look into the whole gamut of issues covered by the 73rd and 74th constitutional amendments. The basic objective of the two constitutional amendments is to strengthen the Panchayati Raj and urban local bodies at the district level and below. SFCs have been thought for strengthening these bodies financially so that they disagree their assigned functions effectively.

Seen in this light, Article 243 (G), (H) and (I) should be read together. Article 243-9(I) (a) (I) specifies that funds liable for distribution between the State and Panchayats would be on the basis of principles recommended by the SFCs. Article 243-G says that the Panchayat at the appropriate level shall be vested with powers and responsibilities with respect to preparation of plans and implementation of schemes for economic development and social justice as may be entrusted to them, including those in relation to the matters listed in the Eleventh schedule. It is only when these schemes have been identified that some estimate can be made of minimum funds required by the Panchayats at all levels of their respective shares as required under Article 243-I(a). The principles which would govern such distribution and allocation cannot be laid down in a vacuum and must necessarily be decided, among other factors, by these estimates also.

The purpose of constituting an SFC and entrusting to it functions under Article 243-I is to enable the Panchayats at the appropriate level to discharge the responsibilities which may be devolved upon them under Article 243-G. The Article makes no distinction between "Plan and Non-Plan schemes". Instead, the recommendations for devolution of resources would be all comprehensive and apply to Plan and

Non-Plan Schemes both, as may be entrusted to the Panchayats. The duality obtaining at the level of Centre with regard to flow of funds from Centre to the state cannot apply to the flow of funds at the State level in the light of the stipulation made in Article 243-G(b) of the constitution.

### **Financial Autonomy**

Autonomy of people's actions which is the basis for participatory planning can only be operationalised if Panchayats enjoy financial autonomy. Various suggestions have been made in this context by different agencies for:

1. There must be a separate head for Panchayats in the State budget. This head should include share from tax and non-tax revenue, grant-in-aid and resources allocated to Panchayats for performing agency functions.

2. As per Section 214(7) of the Act, the Gram Panchayat (GPs) and Panchayat Samities (PS) shall submit their budget to the Zilla Parishads (ZP), which along with its budget submit them to the government. This is against the letter and spirit of local government. Budgets passed by the GPs should go to the PS which after consolidating them should submit them to the ZP.

The ZP, instead of ending them to the government, should submit the budget of this whole rural area to the District Planning committee which, after consolidating the plans of rural and urban areas should submit it to the State Government.

3. The Rural Development schemes which are implemented by District Collectors may be implemented through Panchayats because items of works of this scheme are almost similar to the XI schedule of the constitution. If this is done, it will not only help in according financial autonomy to the local government but also lessen spatial gaps in various social infrastructures.

4. A provision should also be made in the Act that if a gram Panchayat is unable to perform the assigned functions, the next higher tier shall examine the problem and help it out. Besides, helping out the lower tier of Panchayat, this will also establish an organic link between the different tiers.

5. Under the Act, rates of the cess shall be governed by the rules made by the Government. After repealing this provision, the Panchayats should be empowered to decide the rate of a particular cess.

6. Imposition of a particular tax or levy or cess should be compulsory. If a tax is not compulsory, it could not be an effective instrument in the hands of the Panchayats to mobilise finance. That particular tax levy should be decided by G.P. For example, house tax is compulsory in Andhra Pradesh and Haryana and optional in Uttar Pradesh. Because of its mandatory nature, it has yielded more finance in Andhra Pradesh and Haryana than in Uttar Pradesh. In the Kerala Panchayati raj Act, powers to collect fixed fees (section 198), building tax, profession tax, advertisement tax and entertainment tax (section 200) are not mandatory for exercise by the Panchayats. Hence, they should be made as such.

### **METHODS AND CONSTRUCTION OF THE STUDY**

In view of the above perspectives, this study was undertaken under the aegis of PRIA, New Delhi in Jatni and Balipatna Block of Khurda district to examine implications of the 73rd Constitutional Amendment Act for on devolution of financial power and authority to local bodies. The broad objectives outlined for the purpose of the study are as follows:

- To assess the members awareness, knowledge etc. on financial management system in goal realisation and sustainability of the PRI.

- To examine the extent of requirements specially on training of members on effective functioning of PRI.
- To review the role of different liaising agencies like State Finance Commission, DRDA, and Block on allocation and decentralisation process of utilisation of funds through local bodies.
- To examine the level of specific allocation of funds of central and state government on sustenance of PRI .

To analyse systematically the existing stock of the allocated funds and methods of utilisation, etc.

## **DATA COLLECTION**

• CYSD-PRI cell personnel interviewed DRDA officials, Zilla Parishad chairman, Zilla Parishad members, Panchayat Samiti Chairman, Panchayat Samiti Members, Sarpanches, Naib Sarpanches, Panchayat secretaries and Ward Members and elicited both qualitative and quantitative information on financial aspects of PRI. The interviews were conducted during the months of July, August and September, 1998.

## **LIMITATION OF THE STUDY**

The study team came across some major problems during the data collection process. These are as follows:

- a) The team could not always manage and harmonise their busy work schedule with the diverse respondents due to time constraint and non-availability of interviewees.
- b) In most of the cases, specially Panchayat Secretaries were very hesitant to provide information because of non-availability of authentic letters from Department of Panchayat. Govt. of Orissa. In some case in order to counter the situation team had to seek the cooperation of local volunteers and village contact persons. Despite these efforts the detailed financial information on income and expenditure could not be collected duly.
- c) Majority of elected members is found to be unaware about financial aspects of panchayat and relied heavily on Panchayat Secretaries for information.
- d) All Orissa Panchayat Secretary strike for higher pay scales created major bottlenecks in data collection process considerably.

## **Status of Allocation of Scheme and Utilisation Pattern Indication**

While the data analysis is under completion, certain responses of respondents can be looked at:

### **DRDA:**

In principle, Panchayats are authorised to implement all 8 schemes like JRY, IAY, MWS, IRDP, TRYSEM, DWACR etc. directly through the Village Committee. It was revealed that funds are allocated to DRDA on the above schemes to be channellised to Panchayats. However, the DRDA is allocating only the JRY funds to the Panchayat directly and other schemes are being implemented through district and block administrative authority, as such violating the constitutional norms.

### **Panchayat Secretaries**

It is mentioned in 73rd constitutional amendment (11th schedule) that the GP PRI body is to make budgetary plan and expenditure on 29 activities related to agriculture, land improvement, minor irrigation, health, sanitation, welfare of SC,ST etc. But according to Panchayat Secretaries (19) only 5

items such as construction of roads, culverts, ferries, water- ways, rural housing, education, drinking water etc. have been worked out from JRY funds for the development of people.

### **PRI Members Awareness on Finances**

One important indicator of awareness of members could be the regularity of their attendance in the office. Every month meetings were organised and average attendance of members ranged. 70-90 percent. The focus of discussion were centered around on education, health, agriculture development, budget etc. The level of awareness particularly. on financial status of PRI revealed that majority of them though aware about financial aspect of PRI pertaining to requirement of finance for annual budget allocation, income and expenditure of last financial year, submission procedure to BDO and DRDA, actual budget submitted and sanctioned difference etc. (See Table 6-12) but all of them found not clear much on all these aspects and entirely depended on panchayat secretary for detailed information. Panchayat secretaries were infact the key persons who manage all the financial related matters and a considerable communication gap observed among them. (See Annexure III for all Tables and for a general profile of FRI members. Annexure IV)

### **Possible lines of Suggestions**

- All central scheme like JRY and State scheme should be exclusively implemented directly through PRIs.
- Training programme should be organised for all members on administration and financial management system of PRIs.
- For resource mobilisation and raising of our funds, all public property should be handed over to GP
- GP should fix and collect taxes from shops of weekly market, roads, product of cottage industries etc.
- GP should develop mechanism on expansion of orchards, establishment of cottage industry, make renovation of ponds for pisciculture for generation of resources and strengthen of financial PRI.

## Annexure-I

### THRE-TIER PANCHAYATI RAJ SYSTEM ORISSA

#### **Zila Parishad**

Out of 40,000 population one member represents to Zilla Parishad)

President (Elected by the Parishad Members)

Vice-President (Selected or Elected by Samiti Members) Zilla Parishad Members (Directly Elected by the people)

#### **Panchayat Samiti**

Chairman (Elected by the Samiti Members)

Vice-Chairman (Selected or Elected by Samiti Members)

Samiti Members (Directly Elected by the people)

#### **Gram Panchayat**

Sarpanch (Directly elected by the people)

Naib Sarpanch (selected or elected by Ward Members) Ward Member (Directly Elected by the people)

GRAM SABHA

All voters



## Annexure II

## STATUS OF ELECTED REPRESENTATIVES OF 97 PRI ELECTION

## ORISSA

Total no.	District	Sub-Div	Block	Panchayat	Ward
	30	58	314	6,261	61,077

## TOTAL NO. OF ELECTED

		Women	SC/ST Women
Ward Members	81077	28595	14400
Sarpanch	5261	1862	975
Panchayat Samiti Member	5260	1870	961
Panchayat Samiti Chairman	314	114	73
Zilla Parishad Member	854	294	140
Zilla Parishad President	30	10	5

Zilla Parishad  
President

## Annexure III

## TABLES

## (RESPONSES OF THE PRI MEMBERS)

Table 1 ; Sex of PRI members

Sl.	Sex	No.
01.	Male	27
02.	Female	18
		-----
		45

Table 2: Age of Members

Sl.	Age	Nos.
01.	20-30	31
02	30-40	5
03.	40-50	7
04	50+	2
		-----
		45

Table 3 Caste of Members

Sl.	Caste	No.
01.	SC	11
02.	ST	02
03.	OBC & General	32
		-----
		45

Table 4: Qualification of Members

Sl.	Qualification	No.
01.	Literate	1
02.	Upto 5 <sup>th</sup>	1
03	. 5-7th	2
04.	7-10th	31
05.	+2	1
06.	Graduate	6
07.	Above Graduate	3
		-----

Table 6: Money required to implement plan

Sl.	Awareness	No.
1.	Do not know	04
2.	Upto one lakh	19
3.	1-2 lakhs	08
4.	2-3 lakhs	11
5.	3-4 lakhs	03
		-----
		45

Table 7: Income of Panchayat (last Financial year)

Sl.	Awareness	No.
1.	Do not know	09
2.	Upto one lakh	15
3.	1-2 lakhs	17
4.	2-3 lakhs	4
		-----
		45

Table 8: Expenditure (last financial year)

Sl.	Awareness	No.
1.	Do not know	09
2.	Upto one lakh	12
3.	1-2 lakhs	14
4.	2-3 lakhs	10
		-----
		45

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Table 9: Awareness on availability of money to Panchayat

Sl.	Awareness	No.
1.	Yes	08
2.	No.	27
3.	secretary knows	10
		-----
		45

## Annexure IV

### PRI MEMBERS- A PROFILE

In the PRI structure, the Zilla Parishad Chairman, Zilla Parishad Members, Panchayati Samiti Chairman, Panchayat Samiti members, the Sarpanch Naib Sarpanch, and Ward members are entrusted pivotal role in administration of self-governance system. It is assumed that through these members the PRI objectives reaches to the people and contributes to bring about a change in the prevailing social structure. Much emphasis is placed on these members for sustainable and productive PRI operation. Keeping in view the PRI perspective in general and financial autonomy on self-sustenance in particular we contacted some of these members find their level of awareness and views on present financial system of the PRI.

#### General Background

Out of the 45 members including Panchayat Samiti Chairman and members, Sarpanches, and Naib Sarpanches, interviewed in of Balipatna and Jatni Blocks, 27 were male and 18 female. (Table 1). It is notable that 31 of them were young within the age group of 20-40 years (Table 2). The members of this age group found very dynamic, enthusiastic and committed for the welfare of the common people. Seventy one per cent (32) of them were OBC and general caste and rest SC and ST. (Table 3). The achievement of education has direct relevance on level of participation and gearing up various activities to PRI. Nearly 68 per cent of them had educational qualification upto the level of matric. (Table 4).

The such low level of educational qualification had certain negative implication, in form of awareness and responsibility, specially on financial matters of PRI which will be reflected subsequently.

Associated with this was the variable of occupational status. Almost half of the members were engaged in agricultural activities followed by household works (13)J social service (7) and business (3). (Table 5). Occupational status of a person has a tremendous

significance since it determines the nature of exposure he/she has in addition to granting him/her economic independence. Further, it has also certain implication in the way of a meaningful participation at the PRI management level.

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## MICRO PLANNING EXPERIENCE OF CYSD, ORISSA

CYSD-PRI cell has completed one micro-plan in Baligaon Gram Panchayat of 'Boipariguda block of Koraput district, Orissa. Now the cell is involved in developing Micro-plans in another GP namely Garedipanchana of Balipatna block in the district of Puri.

The experiences presented below include different steps, processes and methodologies, constraints and learnings, primarily drawn from "Baligaon" experience. Baligaon GP consists of 5 revenue villages covering 62 hamlets and a total population of 6652

### Steps

The following steps were planned before initiating the micro-planning process. They are as follows; ·

- a) Share the benefits of micro-planning process with different stakeholders. such as common people, block level government functionaries, elected panchayat representatives and change agents.
- b) Structured training programs for elected representatives and change agents.
- c) Collecting secondary information on all related areas needed for planning such as, maps, data on different ongoing government programs, future plans of different departments, local resources available, different institutions (such as schools, dispensaries etc.), possibility of resource generation etc.
- d) Collecting primary information through PRA
- e) Developing ward wise micro-plans and integrating those at panchayat level
- f) Sharing the micro plans at different wards and orienting people to present the same at Palli Sabhas for approval

### Process and Methodologies

The following process and methodologies were followed. They are;

- a) In each stage of intervention the participation of people and perception/opinion of stakeholders was solicited.
- b) As a matter of strategy a critical mass of young and energetic people drawn from different villages was created. They were thoroughly trained to carry forward the process and playing the anchor role in their respective villages.
- c) During primary and secondary data collection, cent percent information was sought. Dependency on sampling was avoided. PRA was used as the primary mode of data collection
- d) Women members were involved in the process to the extent possible.
- e) The government functionaries were brought to confidence right from the beginning of the process.

## Constraints

- The undulating topography of the Gram Panchayat, distance from one village to the other (approximately 8-10 kms), low literacy rate among people (below 10%) are some of the factors responsible for taking the process for such a long time i.e nearly eleven months.
- During the primary data collection phase, PRA tool was primarily used. Collecting information, perceptions of women members was difficult as they were participating less in the meetings due to cultural reasons. Further, there were only few members who could participate through out the PRA process and at different micro planning development phases/steps.
- The cynical attitude of governments functionaries towards the capacities of the PRI members and the initiation of the micro-planning process, warranted lots of persuasion in winning their confidence. Hence, a delay in the initiation phase.
- Preparation of cadastral maps and collecting details of Record of Rights (ROR) to be used during planning, took substantial time

## Learning

- The entire micro-planning process should be completed within three months time preferably during November, December and January. This is the time period during which people are relatively free and the output can be linked to the Pam Sabha.
- Ownership of the whole process should rest with the Panchayat representatives. Hence, from the beginning all panchayat representatives should be involved at all steps of interventions
- Micro-planning process should generate only that information which are required for planning and subsequent use.
- All the stakeholder should be brought to confidence prior to the initiation of the intervention.

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