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Devolution of Resources to Panchayati Raj Institutions: Role of Fourteenth Finance Commission

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Abstract

The First Finance Commission was established as per the drafted acts and rules under the Article 280 in the year 1951 and till now Fourteen Finance Commissions have been constituted in India. Up to the period of Ninth Finance Commissions, the target of different criteria for devolution of financial resources was related to only first two layers of government i.e. from centre to states level. But from the Tenth Finance Commission, the area of criteria for devolution has broadened from centre to states and from centre as well as states to local bodies in the country with a view to reduce the vertical as well as horizontal federal fiscal imbalance. The article 280's sub clause 3 (bb) regarding the 73rd Amendment Act-1993 made obligatory upon the Centre Finance Commission to recommend the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats /municipalities in the State on the basis of the given criteria. From 10th to 13th and the latest 14th Central Finance Commissions have made many recommendations to centre as well as state governments to strengthen the fiscal position of Panchayati Raj Institutions (PRIs).It is noticed that the total amount of the basic grant to be allocated to PRIs of all states has increased more than four times during the period of the Fourteenth Finance Commission as compared to the Thirteenth Finance Commission. The 14th Finance Commission has made many special recommendations to increase the fiscal powers of local bodies specifically PRIs and it has tried its best to increase the own resources of PRIs as well as the need to maintain their accounts. It has suggested states to frame effective structure, assign powers to PRIs to levy taxes and new pattern of devolution index for local bodies.

Keywords: Panchayati Raj, Rural Local Bodies, Finance Commission, Basic Grants, Performance Grants.

Introduction

Finance Commission in India occupies an important position to make federal transfers fair and transparent. The First Finance Commission of India was established as per the drafted acts and rules under the Article 280 in the year 1951. Till now, Fourteen Finance Commissions have been constituted in India. Up to the period of Ninth Finance Commissions, the respective criteria for devolution of financial resources targeted only first two layers of government i.e. from centre to states level. But from the Tenth Finance Commission, the area of criteria for devolution has broadened from centre to states and states to local bodies in the country with a view to reduce the vertical as well as horizontal federal fiscal imbalance. The article 280's sub clause 3 (bb) regarding the 73rd Amendment Act-1993 made obligatory upon the Central Finance Commission to recommend "the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats /municipalities in the State on the basis of the given criteria". From10th to 14th Central Finance Commissions have made many recommendations to centre as well as state governments to strengthen the Panchayati Raj Institutions (PRIs). In this paper, an effort is made (1) to know the status of Panchayati Raj Institutions after the provisions made under 73rd Amendment Act-1993 to strengthen the Panchayati Raj Institutions (PRIs) in India; (2) to analyse the role of Central Finance Commissions in enhancing the fiscal resources of PRIs in India; and (3) to explore the recommendations of Fourteenth Finance Commission to strengthen the fiscal resources of PRIs.

Status of Panchayati Raj Institutions after 73rd Constitutional Amendment Act-1993

The local bodies got constitutional mandate with the 73rd and 74th Constitutional Amendment Act 1993 related to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. The 73rd Constitutional Amendment Act 1993 made many provisions to revitalise the Panchayati Raj Institutions (PRIs). To strengthen the fiscal condition of PRIs, The State Legislatures have been given the power to authorise the Panchayats to levy, collect and appropriate suitable local taxes and also provide for making grants-in-aid to the Panchayats from the consolidated fund of the concerned state. For this purpose a State Finance Commission (Article 2431) has to be constituted once in every five years to review the financial position of the local bodies and to make suitable recommendations to the Governor as to the principles which should govern the distribution between the state and the panchayats of revenue, whether net proceeds of the taxes, duties, tolls, and fees leviable by the state or grants in aid.The provision for the Central Finance Commission is to make recommendations regarding distribution of grants in aid to PRIs from the Centre as well as state governments with the suitable criteria of devolution {Article 280's sub clause 3(bb)}.

As a result of 73rd Constitutional Amendment Act, elections to PRIs in States/Union Territories were held and 2,27,698 Panchayats at village level, 5906 Panchayats at intermediate level and 474 Panchayats at the districts level were constituted in the country in 1994. These Panchayats were being manned by about 34 lakh elected representatives at all levels; out of them one-third were women. All state legislatures had constituted their State Panchayati Raj Acts. Maximum numbers of states have followed these recommendations and have constituted State Finance Commissions, State Election Commissions, District Planning Committees and these states are also holding elections in every five years. Almost all the states have been constituting State Finance Commissions (SFC) and as per the recommendations of SFCs, the State Governments have agreed to give PRIs a specific percentage of share in some of the State taxes like land revenue and cess on it, additional stamp duty, entertainment tax, royalties on minerals and mines, forest revenue and market fees but these taxes are less buoyant in nature and have no relation to the powers and functions to be devolved upon Panchayats. More buoyant taxes like sales tax and excise are kept out of the purview of PRIs. All SFCs have put great emphasis on internal revenue mobilization and SFCs place greater reliance on transfers for bridging the gap between the local bodies' revenue and expenditure. Some states like Assam, Bihar and Himachal Pradesh are leading and have constituted five State Finance Commissions. Some states and Union territories like Chattisgarh, Dadra & Nagar Haveli have laggard behind and have constituted the state finance commission very late. Almost all the states have made District Planning Committees with few exceptions. All the states are holding elections of PRIs in every 5 years with the help of State Election Commissions.

In the Constitution of India, the Eleventh Schedule has been added (Article 243G) which gives the detail list of functions to be performed by PRIs. This amendment further provides for devolution of powers and responsibilities to three tiers of PRIs (Gram Panchayats, Panchayat Smitis and Zilla Parishads) with respect to preparation of plans and programmes for economic development and social justice and their implementation in relation to 29 Subjects (recommended as 3Fs-Functions, Finances and Functionaries-FFF) listed in the Eleventh Schedule. Now the State Governments have clearly identified what would be done by the three tiers of Panchayats at their level. This should be based on the rule that what can be done at the lower level and what should be done only at the higher level. Furthermore, departmental functionaries who are required to implement the programmes at the Panchayat level must be placed under their overall supervision and control.

All states have not uniformly assigned all the 3Fs to PRIs, while a large number of states have assigned many or even all the 29 functions but almost all the states except Karnataka and Sikkim have assigned very few funds and functionaries to PRIs. The Punjab, D&N Haveli and Lakshadweep states' position with regards to 3Fs is very weak as only few functions are assigned to PRIs. India, second large populated country in the world, where an overwhelming majority lives in rural areas the total rural population was increasing at a high rate and comprised more than 85 percent of the total population till 1970 but there after no doubt, the ratio of rural population has been showing a decreasing trend. But even now a huge population 68.8 percent live in rural areas.

In 2001 the 74.2 crore population lived in rural areas which increased to 83.30 crore in 2011. The states like Himachal Pradesh, Orissa, Bihar and Assam have more than 80 percent rural population. The Uttar Pradesh state ranks first, followed by Bihar, West Bengal and Maharastra in terms of absolute number of rural population. But the states like Goa (5.51 crore), Mizoram (5.29crore) and Sikkim (4.55 crore) have very less population living in rural areas. In most of states, though the population of rural areas in absolute terms is increasing but percentage in the total population is decreasing. In the states like Himachal Pradesh, Bihar, Sikkim and Orissa more than 85 percent population lived in rural areas in 2001 but it decreased by 3 to 5 percentage points in 2011. During the last decade, the share of rural population of some states like Kerala (22%), Sikkim (13%) and Nagaland (11%) has declined sharply. As PRIs are directly related to rural population so higher the rural population higher should be the number of PRIs in a state. The maximum numbers of PRIs (52891) is constituted in Uttar Pradesh followed by Maharashtra (28283), Madhya Pradesh (23414) and Punjab (12956) states. But very less number of PRIs are found in the states like Goa (202) Manipur (174) and Sikkim (193).

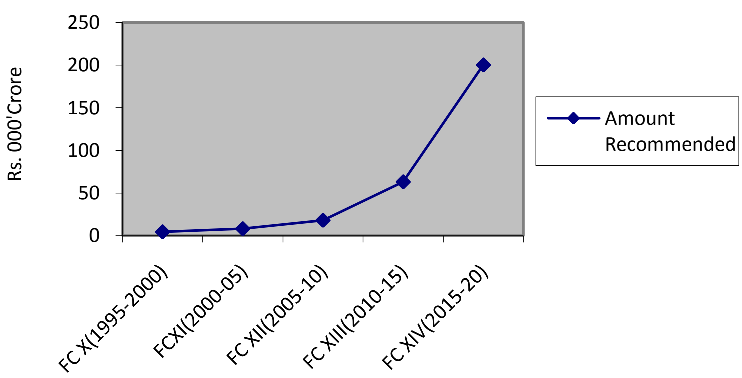
Role of Central Finance Commissions to Strengthen the PRIs in India

Central Finance Commission assumes important role in strengthening the fiscal resources of

PRIs. The three channels through which PRIs in India receive resources are (1) power to levy fines, fees, taxes and duties as their own tax and non tax resources, (2) devolution of resources by the state government on the basis of recommendations of the State Finance Commissions (SFCs) and (3) through the Central Finance Commission's (CFCs), recommendation to generate, strengthen and devolution of the fiscal resources for the PRIs role is quite significant (Amandeep Singh & H. Kaur, 2014).The FC-XI recommended state governments for imposition of taxes on land and farm incomes, surcharge or cess on state taxes, levy of professions tax, improving efficiency of collection of property tax, assignment of a buoyant tax in lieu of octroi when it is abolished, levy of service charges and periodic revision therein. From the period of 2005-10, the FC-XII made many recommendations. (i) measures for augmenting resources of panchayats such as compulsory levy of major taxes and exploring all non-tax revenue sources; (ii) obligatory levy of user charges; (iii) insistence on collection of minimum revenue and providing incentive grants for collections beyond this prescribed minimum amount; (iv) identifying revenue generating common property resources and ensuring adequate income from them; and (v) giving powers to intermediate or district panchayats to levy tax or cess or surcharge on agricultural holdings. Following previous two FCs, The FC-XIII suggested that the States could adopt the following procedure for strengthening their local bodies: (a) mandate some or all local taxes as obligatory at non-zero rates of levy; (b) provide matching grants for revenues raised; (c) explore market based financing through the issue of municipal bonds; (d) share mining royalties with the local body in whose jurisdiction the income originates and (e) the Union and State Governments could pay appropriate service charges to local bodies for civic services. The different Central Finance Commissions have assigned different criteria of weightage of devolution to local bodies.

The criteria of devolution to local bodies recommended by 11th and 12th Central Finance Commissions of India were the same. By these two, the maximum weight (40 percent) was given to population of states on the basis of 1991 and 2001 census respectively, followed with 20 percent weight to index of decentralisation as well as to distance from highest per capita income. The geographic area of state and revenue efforts of local bodies of states was given 10 percent weight. As compared to 11th and 12th CFCs the 13th Centre Finance Commission recommended, a different pattern of devolutions to states as regards to local bodies. The weight to population of states was increased by 10 percent, from 40 percent to 50 percent. The geographical area has the same share (10 percent) as before and decreased the importance of distance from highest per-capita income recommended only 10 percent weight. Comparatively 5 percent lower with 15 percent weight was recommended to index of decentralisation. The 13th Finance Commission gave for the first time importance to SC/STs proportion in total population of state by providing 10 percent weight to this aspect and 5 percent weight to local body grants utilisation index of states. Rather than covering different indicators in criteria of devolution to local bodies, the 14th Finance Commission recommended distribution of grants to the states only on the basis of two main aspect i.e. population (Census 2011) and area, with the weight of 90 percent and 10 percent respectively. The last three Finance Commissions used two types of criteria for determining grants for local bodies i.e. related to need of resources and extent of devolution or decentralisation. "There are several pratical difficulties in considering an appropriate index or indices for devolution, without assuming that there is an optimal model of devolution or decentralisation that is uniformly applicable to all States, irrespective of their socio-political and institutional context. Even assuming that such an index could be designed, it is not easy to assess the actual level of devolution relative to the optimal level, due to the unavailability of accurate, reliable information of the ground position. Therefore, the 14th Finance Commission has used criteria that reflect needs in order to determine the grants to panchayats and municipalities, namely population and area. The delivery of basic civic services is related to the current population to be served within the administrative jurisdiction of the local body. Area is also relevant from the viewpoint of the costs of delivering such services," (Fourteenth Finance Commission, 2015-20).

The Graph No: 1



Source: Reports of Different FCs of India.

This graph shows the amount of grants-in-aid to PRIs recommended by different Finance Commissions. After the PRIs got constitutional mandate, the centre government had transferred a huge amount of grants-in-aid to PRIs. The graph shows increasing trend in the amount of grants-in-aid transferred. A sharp increase in grants-in-aid to PRIs is noticed during the Thirteenth and Fourteenth Finance Commissions.

Table - 1

State wise Devolution of Resources to Rural Local Bodies by 13th and 14th Finance Commission

(Rs. In Crore)

States	Basic Grant to Rural Local Bodies				Performance Grant to Rural Local Bodies			
	13th FC (2010-15)	Percentage	14th FC (2015-20)	Percentage	13th FC (2010-15)	Percentage	14th FC (2016-20)	Percentage
Andhra Pradesh	3417.3	8.29	7788.68	4.32	1809.27	8.29	865.41	4.32
Arunachal Pradesh	179.06	0.43	737.93	0.41	94.77	0.43	81.99	0.41
Assam	1031.56	2.5	4874.92	2.7	546.11	2.5	541.66	2.7
Bihar	3239.18	7.86	18916.05	10.49	1714.97	7.86	2101.78	10.49
Chhattisgarh	1092.49	2.65	4719.72	2.62	578.41	2.65	524.41	2.62
Goa	59.01	0.14	120.39	0.07	31.23	0.14	13.38	0.07
Gujarat	1525.5	3.7	7771.26	4.31	807.65	3.7	863.47	4.31
Haryana	710.25	1.72	3495.17	1.94	376.01	1.72	388.35	1.94
Himachal Pradesh	363.83	0.88	1628.82	0.9	192.67	0.88	180.98	0.9
Jammu & Kashmir	600.49	1.46	3117.36	1.73	317.91	1.46	346.37	1.73
Jharkhand	991.65	2.41	5442.07	3.02	525.03	2.41	604.67	3.02
Karnataka	2945.22	7.14	8359.79	4.64	1559.31	7.14	928.87	4.64
Kerala	1274.81	3.09	3615.85	2.01	674.96	3.09	401.76	2.01
Madhya Pradesh	2689.96	6.53	12200.72	6.77	1424.13	6.52	1355.64	6.77
Maharashtra	3595.4	8.72	13532.11	7.51	1903.57	8.72	1503.57	7.51
Manipur	143.15	0.35	185.44	0.1	75.83	0.35	20.6	0.1
Meghalaya	204.74	0.5	0	0	108.34	0.5	0	0
Mizoram	131.87	0.32	0	0	69.79	0.32	0	0
Nagaland	199.53	0.48	0	0	105.64	0.48	0	0
Odisha	1694.09	4.11	7965.28	4.42	896.89	4.11	885.03	4.42
Punjab	735.91	1.79	3682.02	2.04	389.61	1.79	409.11	2.04
Rajasthan	2575.24	6.25	12270.27	6.81	1363.39	6.25	1363.36	6.81
Sikkim	120.7	0.29	133.64	0.07	63.9	0.29	14.85	0.07
Tamil Nadu	2016.32	4.89	7899.69	4.38	1067.48	4.89	877.74	4.38
Telangana	--	--	4837.75	2.68	--	--	537.53	2.68
Tripura	191.57	0.46	302.11	0.17	101.41	0.46	33.57	0.17
Uttar Pradesh	6399.61	15.52	32198.9	17.86	3388.17	15.52	3577.66	17.86
Uttrakhand	386.33	0.94	1694.42	0.94	204.51	0.94	188.27	0.94
West Bengal	2709.64	6.57	12772.6	7.09	1434.58	6.57	1419.18	7.09
Total	41224.55	100	180263	100	21825.84	100	20029.22	100

Source: 13th & 14th Finance Commission of India.

The statistics in table no. 1 divulge the recommended share of states in grants-in-aid through Basic and Performance grant to Panchayati Raj Institutions by Thirteenth and Fourteenth Finance Commissions of India during the period of 2010-15 and 2015-20 respectively but Performance grant for the Fourteenth Finance Commission will be distributed after a year from 2016-17 onward so as to get sufficient time to state governments and local bodies to put in place a scheme and mechanism for implementation. The largest populated state Uttar Pradesh has the highest rank with weights (16.013) of devolution of resources to local body. So, 13th as well as 14th Finance Commission has recommended the highest share to Uttar Pradesh in devolution of grants-in-aid. Beside it, the 14th Finance Commission has increased the percentage share of grants-in-aid by 2 percent in both Basic and Performance grants to this state. However, Goa has got a similar tiny share (0.07 percent) in 13th and 14th Finance Commissions. Sikkim, a north-east state has also shared the same ratio (0.07 percent) like Goa in 14th Finance Commission, where as it received 120 crore (0.29 percent) share in 13th Finance Commission. Following higher ranks in devolution index by 13th and 14th Finance Commission, Bihar (10.49 percent), Maharashtra (7.5 percent), West Bengal (7.09 percent), Rajasthan (6.81 percent) and Madhya Pradesh (6.77 percent) have been allocated huge share of grants-in-aid. The state Andhra Pradesh had got total 3417 crore (8.29 percent) in 13th Finance Commission but in 14th Finance Commission its share has declined by 4 percent. Out of 29 states, only 13 states have got relatively more share in 14th Finance Commission and Bihar state is one among them which shared more than 3 percent increment as compared to the devolution recommended by 13th Finance Commission. The total amount of the basic grant to be allocated to PRIs in different states has increased more than four times during the period of the Fourteenth Finance Commission as compared to the Thirteenth Finance Commission. The states like Bihar, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Odisha, Punjab, Uttarakhand and Uttar Pradesh have been assigned basic grant more than five times in the Fourteenth Finance Commission as compared to the Thirteenth Finance Commission.

Recommendations of 14th Finance Commission for Strengthening Own Finances of Panchayati Raj Institutions

The present Finance Commission has suggested tax and non tax measures to improve fiscal resources specifically own income of PRIs.

Tax Measures

Property Tax

The Fourteenth Finance Commission has suggested that the existing rules should be reviewed and amplified to facilitate the levy of property tax and the granting of exemptions be minimised to increase the source of revenue of PRIs .

Betterment Tax

This tax is for the improvement in property under different schemes carried out by Gram Panchayats. But there is a need to make clear framework of rules for the levy of betterment tax by the state governments.

Advertisement Tax

All states had made provisions to collect the advertisement tax by Panchayats including their jurisdictional area but most of them had not empowered Panchayats to collected this tax. So state governments should empower the local bodies to impose the advertisement tax and improve their own source of revenue.

Entertainment Tax

The Fourteenth Finance Commission suggested newer forms of entertainment such as boat rides, cable televisions and internet cafes should be brought into the entertainment tax.

Tax on Professions, Trades, Calling and Employments

At present, twenty one states impose professions tax through various laws, adhering to the limit of Rs. 2500. The Commission has recommended increase in the limit from Rs. 2500 to Rs. 12000 per annum.

Non-Tax Measures

Rent on Property

State governments should take action to assign productive local assets to the Panchayats and enable rules for collection and institute system so that they can obtain the best returns while leasing or renting common resources.

Income from Cess or Royalty on Minerals

The 14th Finance commission has recommended that cess or royalty on minerals should be shared fully with local bodies in whose jurisdiction the mining is done.

Service Charge on Government Property

The 14th Finance Commission recommended that the Union and state governments should provide property compensate to local bodies for the civic services provided by them to government properties and state governments should not provide exemptions to any entity from the tax and non tax levies that are in the jurisdiction of local bodies. In case where the grant of such an exemption becomes necessary, the local bodies should be compensated for the loss (Fourteen Finance Commission Report, 2015-20).

In the end, it is concluded that Finance Commission plays an important role in strengthening PRIs in India. The 14th Finance Commission has made many special recommendations to increase the fiscal powers of local bodies specifically PRIs and it has tried its best to increase the own resources of PRIs as well as the need to maintain their accounts. It has suggested states to frame effective structure and assign powers to PRIs to levy taxes. It has also recommended new pattern of devolution index for local bodies. So its recommendations seem more effective and if followed completely will help to strengthen fiscal decentralisation, fiscal resources of the PRIs and the grass root democracy in India.

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