Chapter 3

PANCHAYAT GOVERNANCE AND FINANCE
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Panchayat Governance and Finance

The concept of "governance" is not new. It is as old as human civilization. Governance may be stated as the process of decision-making and the process by which decisions are implemented (or not implemented). Governance can be used in several contexts such as corporate governance, international governance, national governance and local governance. Since governance is the process of decision-making and the process by which decisions are implemented, an analysis of governance focuses on the formal and informal actors involved in decision-making and implementing the decisions made and the formal and informal structures that have been set in place to arrive at and implement the decision.

On the other hand finance is very much associated with governance. Needless to mention, administration and finance of an organisation like panchayat entities are as inseparable as a body and its shadow. All administrative acts involve structure of money, at least, for hiring the necessary personnel to carry out the tasks. Long before, Kautilya (1956, p.65) has rightly pointed out that "... all undertakings depend upon finance. Hence fore-most attention shall be paid to the treasury".

In this chapter, an endeavour is made to discuss the pattern of governance prevailing in Panchayati Raj system of West Bengal. An overview of panchayat finance is also discussed to have an understanding on how finances are being procured from the various sources generated internally and externally.

PANCHAYAT GOVERNANCE

The word governance derives from the Greek verb κυβερνάω [kubernáo] which means to steer and was used for the first time in a metaphorical sense by Plato (World Bank, 1991). Governance is the activity of governing. It relates to decisions that define expectations, grant power, or verify performance. It consists either of a separate process or of a specific part of management or leadership processes. Rosenau (1999) has defined governance as the rules of the political system to solve conflicts between actors and adopt decision (legality). It has also been used to describe the "proper functioning of institutions and their acceptance by the public" (legitimacy). And it has been used to invoke the efficacy of government and the achievement of consensus by democratic means (participation).

Governance principles of accountability, responsibility and separation of structures are applied in both the public and private sectors. In the public sector, governance principles aim to ensure
democratic and accountable government that is open, fair and transparent. The keys to sound governance in the public sector are therefore:

- separation between legislative and executive powers and administrative functions
- clear distinction of roles between policy making and policy implementation
- appropriate delegations of authority and responsibility for efficient and effective public administration
- adequate, cost effective systems of internal control and reporting
- clear and unambiguous accountability mechanisms
- codes of conduct for political office bearers and officials.

Therefore, to assess the effectiveness of governance in PRIs should be judged in the light of the above mentioned key factors.

**Financial Governance and Its Importance**

In the financial governance framework within a panchayat body the roles of Prodhan/ Sabhapati or Sabhadhipati, as the case may be, elected members and officials and executives are very crucial and stress is given in developing a system of accountability and oversight that is a part of the overall administration of panchayat affairs.

A financial governance framework is a structure in which a panchayat body takes decisions, strengthens accountability and manages its affairs in relation to the collection, distribution, allocation, utilisation, control and monitoring of resources. This means establishing a comprehensive system of checks and balances that fosters sufficient oversight and accountability to ensure that government carries out its responsibilities effectively.

**Accountability and oversight**

Accountability and oversight are only possible when there is clear separation between the legislative (GP or PS or ZP/Prodhan or Sabhapati or Sabhadhipati/executive committee) powers of the panchayat body and the administration. Confusing or duplicating responsibility weakens accountability and oversight mechanisms, hence the need for separating responsibilities. The elected heads are responsible for providing the panchayat body with political leadership, proposing policy and overseeing that the executive official implements the policy. The Panchayat is responsible for approving policy and exercising oversight over its Prodhan or Sabhapati or Sabhadhipati, and the administration is accountable to the Panchayat via the executive officials (e.g. BDO or ADM). Officials are responsible for implementation and providing the elected leaders or committee with advice.

A sound financial administration of local bodies like Panchayats must adhere to the following standards:
• resources of the PRIs are used effectively, efficiently and economically
• full and proper financial records of the PRI are being kept
• the institution has and implements an appropriate
  ➢ tariff policy
  ➢ rates policy
  ➢ credit control and debt collection policy
  ➢ supply chain management policy
• the PRI has and maintains effective, efficient and transparent systems of -
  ➢ financial management
  ➢ risk management
  ➢ internal control
• unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented and
• disciplinary or, when appropriate, criminal proceedings are instituted against any official of the panchayat who has allegedly committed an act of financial misconduct or an offence.

Governance of Gram Panchayat
The powers and duties that PRIs require to perform as envisaged in the Act may broadly be classified as follows:
✓ to prepare development plan/annual action plan;
✓ to implement schemes for economic development and social justice as may be drawn up by, or entrusted upon it (in pursuance of 11th Schedule of the Constitution);
✓ to manage or maintain any work of public utility; and
✓ to collect revenue for utilisation of such funds for development work.

Gram Panchayat prepare a development plan for five-year term of the office of the members and revise and update it as and when necessary with regard to the resources available; it has also to prepare an annual plan for each year by the month of October of the preceding year for development of human resources, infra-structure and civic amenities in the area to attain goal of implement schemes for economic development and social justice as may be drawn up by, or entrusted upon it. In this direction the Gram Panchayat has to prepare Annual Budget accordingly to accommodate all the facets of development, especially the revenue generating plans and the expenditure plans. The system is vibrant through its Upa-Samities.

Upa Samities of Gram Panchayat

A Gram Panchayat shall constitute the following Upa-Samities:
i. Artha -Ö- Parikalpana Upa-Samiti (finance and planning)

ii. Krishi -Ö- Pranisampad Bikas Upa-Samiti (development of agriculture and cattle resources)

iii. Siksha -Ö- Janasasthya Upa-Samiti (education and public health)

iv. Nari, Sishu Unnayan -Ö- Samaj Kalyan Upa-Samiti (development of women, child

v. Shilpa -Ö- Parikathama Upa-Samiti, (industry and infrastructure)

A Gram Panchayat may constitute other Upa-Samities subject to the approval of the State Government. The Convener of an Upa Samiti is called Sanchalak. Sanchalaks of the all upa-samities are member of the Artha O Parikalpana Upa-Samiti by virtue of their position. The Prochhan and the Upa-Pradhan are the ex-officio member of all the Upa-Samities. All the Upa-Samities shall have to prepare their annual budget which in turn shall be compiled and form the General Annual Budget in the Artha-O-Parikalpana Upa-Samiti. Apart from this the panchayat functionaries have to convene at least two meetings at the Gram Sansad [Half-yearly(November) and Yearly(May)]. The Annual Plan shall be ratified at the Gram Sabha, a larger forum, in the month of December in each year. The function of Artha-O-Parikalpana Upa-Samiti relates to matters like process of making expenditure, collection of revenue, auditing, maintenance of accounts. Besides, activities like preparation of plan documents, making sanction to all schemes and related other assignments are also under the purview of this Upa-samiti.

The monitoring of the activities of a GP by the State Government is exercised by way of-

✓ Internal Review Audit conducted by PAAO on quarterly basis;
✓ External Audit conducted by A.G. of the State on annual basis; and
✓ Inspection conducted by Inspectors of Gram Panchayats

Governance of Panchayat Samiti

At Panchayat Samiti, under the Chairmanship of the Sabhapati, the Block Development Officer (BDO) acts as the Executive Officer and the Joint Block Development Officer is the Joint Executive Officer. The Extension Officer for Panchayats (EOP) is the Secretary of the Panchayat Samiti while all of the officers and other employees of the block’s set up have been placed at the disposal of the PS. Since the functions and the responsibilities of the office of the BDO and that of the Panchayat Samiti are inseparable in nature, intertwined and complimentary to each other, they are lodged in the same premises and, except for a few regulatory functions, decisions are taken as the single unit of delivery system. The Panchayat Samities have 10 (ten) different Sthayee Samitles to regulate the proper functioning of the organisation which are as below:
1. Artha, Sanstha, Unnyan-O-Parikalpana Sthayee Samiti (Finance, Establishment, Development and Planning Standing Committee)
2. Jana Swasthya -O-Paribesh Sthayee Samiti (Public Health and Environment Standing Committee)
3. Purta Karya -O-Paribahan Sthayee Samiti (Public Works and Transport Standing Committee)
4. Krishi Sech -O-Samahaya Sthayee Samiti (Agriculture, Irrigation and Cooperation Standing Committee)
5. Siksha, Sanskrit!, Tathya -O- Krira Sthayee Samiti (Education, Culture, Information and Sports Standing Committee)
7. Bon -O- Bhumi Sanskar Sthayee Samiti (Forest and Land Reforms Standing Committee)
9. Khadya -O- Sarabaraha Sthayee Samiti (Food and Supplies Standing Committee)
10. Kshudra Silpa, Bidyut -O- Achiracharit Sakti Sthayee Samiti (Small Industries, Power and Non-Conventional Energy Standing Committee)

A Panchayat Samiti may constitute other Sthayee Samities subject to the approval of the State Government. The members of a Sthayee Samiti shall elect, in such manner as may be prescribed, a Chairman, called Karmadhyaksha, from among them. The Sabhapati of the Panchayat Samiti shall be the ex officio Karmadhyaksha of the Artha, Sanstha, Unnayan-O-Parikalpana Sthayee Samiti. The Sabhapati and Sahakari- Sabhapati are the ex-officio member of all the Sthayee Samities. The Extension Officer of Panchayats shall act as the Secretary to the Artha, Sanstha, Unnayan O Parikalpana Sthayee Samiti. The members of a Sthayee Samiti, other than the Artha, Sanstha, Unnayan O Parikalpana Sthayee Samiti, shall select, in such manner as may be determined by the Sthayee Samiti in conformity with such direction as may be issued by one or more orders, general or special, of the State Government, one of the members act as the Secretary to such Sthayee Samiti. The Secretary to each Sthayee Samiti shall, in consultation with the Karmadhyaksha, convene the meetings of that Sthayee Samiti. Karmadhyaksha shall be responsible for the financial and executive administration in respect of the schemes and programme under the purview and control of the Sthayee Samiti within the budgetary provisions of the Panchayat Samiti. The seminal feature of the formation of the Sthayee Samiti is the introduction of the member of opposition in each samiti while
the Leader of the Opposition plays a significant role in the Artha, Sanstha, Unnyan-O-Parikalpana Sthayee Samiti being the ex-officio member. All the resolutions are generally adopted unanimously and in case of any difference of opinion, the said case may be sought out instantaneously by the way of voting amongst the members. General meeting is required to ratify all the proceedings of all Sthayee Samities which is required to be convened at least once in a three months. Apart from this there is also scope of deliberation amongst the panchayat functionaries at the yearly and half-yearly Block Sansad Meeting which is comprised of all the members of Gram Panchayat and Panchayat Samiti.

Another body is vigilant in respect of the activities of PS which is termed as the Vigilance and Monitoring Committee in which the induction of the representatives of different National Political Parties has increased the relevancy to which it is created for.

The State Government may, from time to time, with the consent of a Panchayat Samiti, place any road, bridge, ferry, channel, building or other property vested in the State Government and situated within the Block under the control and management of the Panchayat Samiti subject to such conditions as it may specify. Provided that the State Government may, after considering the views of the Panchayat Samiti, withdraw such control and management to itself subject to such conditions as it may specify.

**Governance of Zilla Parishad**

Every Zilla Parishad shall be a body corporate having perpetual succession and a common seal and shall by its corporate name sue and be sued. The ZP under the chairmanship of the Sabhadhipati elected by the members of the ZP members is the chief of organization at the district level and the District Magistrate acts as the Executive Officer assisted by an Additional Executive Officer. A post of Deputy Secretary has been created recently. Besides, 25 posts of Additional Deputy Secretary have been created in the state with this distribution in the ZP on the basis of size and workload. The formal association of the District Magistrate with the ZP appears to be an advantage in forging strong linkage with other government departments. The ZP functions through 10 (ten) different Sthayee Samities (whose nomenclature are same as Panchayat Samiti) consisting of elected representatives and government officers nominated from concerned line departments. Karmadhyakshas (Chairpersons) are the heads of these sthayee Samities, assisted by secretaries who are Government officers. Besides, there are two other statutory bodies namely, samanway samiti (co-ordination committee), and District Council operative at the district level and are playing pivotal role in the governance of ZP.
Functionaries and Governance through Standing Committees

The elected heads of the ZP and the PS exercise their executive and financial power through Executive Officer of Zilla Parishad or Panchayat Samiti, as the case may be. The system is different for the GPs where the Prodhan is the executive and financial head. He/she exercises such power and responsibility with the assistance of GP employees under the provisions of the Act. The Savadhipati / Sahakari Sabhadhipati and Karmadyaksha of Sthayee Samiti of Zilla Parishad and the Sabhapati / Sahakari Sabhapati of Panchayat Samiti have been made whole time functionaries of their offices to make them devote full time for management of the Panchayats and they are not allowed to hold office of profit or be employed elsewhere, unless they have taken leave for their tenure in the Panchayat.

In order to promote collective governance and sharing responsibilities as well as for improving efficiency there is provision of horizontal decentralization of the power and functions of each tier of the Panchayat. This is done through constitution of several Standing Committees known as Sthayee Samiti for the ZP and the PS and Upa Samiti for the GP. Power and functions of each such committee has been prescribed and apart from the elected functionaries officials concerned of the line departments are also members of those committees. However, the non-elected members have no voting rights and they are to advise and guide the elected members in taking decisions of those committees. These committees can play a major role in convergence of related activities and coordination among functionaries of different departments and the Panchayats and in preparation and implementation of District Plan. The Standing Committees of the ZP and the PS should meet at least once a month and that of the GP should have at least six meetings in a year.

District Council

The District Council for Panchayats has been introduced by the West Bengal Panchayat (Amendment Act), 1994 and its basic role is of a watchdog and a monitor. It plays a vital role in the governance system of Panchayati Raj. Chairperson or Adhyaksha of District Council is the leader of the recognized political party in opposition having largest number of members in Zilla Parishad. All members of the Zilla Parishad including ex-officio members elect Chairperson and other five members. The Additional Executive Officer of the Zilla Parishad acts as Member-Secretary to the Council. Three other officers, namely District Panchayat and Rural Development Officer, Parishad Accounts and Audit Officer and Executive Engineer of Zilla Parishad are appointed by the State Government for acting as members of the Council. The District Council is authorized to exercise the following power:

1. Inspect any office of the Panchayat within its jurisdiction;
II. Examine any book of accounts and associated registers / files / documents;
III. Call for Inspection / Audit Reports and actions taken there on;
IV. Interact with any official / functionary of the Panchayat bodies;
V. Visit sites where any program is under implementation;
VI. Suggest any corrective action, measures of improvement.

Thus, the District Council enjoys the unique position of overseeing all the financial transactions, maintenance of accounts, and inspection reports for all the tiers of the Panchayati Raj Institutions and has the capability of identifying the lacunae, weakness, loopholes and deficiencies in the system as well as suggesting ways for their removal and improvement. The District Council will prepare a report in the prescribed form and submit to the Sabhadhipati, who will place it in the next meeting of the Finance Standing Committee for discussion. The Report along with decision of the Finance Standing Committee shall be forwarded to the concerned Panchayat for discussion in its General body meeting and taking corrective measures. The Panchayat concerned shall send report to the Zilla Parishad and the District Council on the actions taken by them. Functioning of the District Council has much scope for improvement (Bhattacharyya, 2009).

Finally, the Act and Rules provide the basic legal framework for function of the Panchayats. Actual functioning of those bodies will depend on the responsibilities assigned to those bodies as well as transferring resources for carrying out those tasks. Such resources not only include fund but also appropriate human resources and building capabilities of all the functionaries including those who are elected. There is also need for freedom within the legal and procedural framework so that those bodies may function with as little dependence on the upper tier government as possible. That requires clearly defining the functions through appropriate devolution, developing independent and accountable bureaucracy for the Panchayats and devolving fund through institutional arrangements as entitlement and with as little element of discretion as possible.

**PANCHAYAT FINANCE**

The evolution of local finance in India from the British era to the present date of time is a product of many events influenced by various factors. The study on the factors and issues involved in the development of local finance, particularly in the rural sphere, ever since the British period reveals trends towards decentralization, liberal trend, neutral and negative approaches simultaneously (Madhava Rao, p 238 ). It can be stated that development of local Finance has been oscillating between trends of decentralization and centralization (Madhava Rao, p 15 ).

The emerging trends in rural local Finance at various stages of its development in India depicts that during the first phase the initiative for rural local taxation was taken by the bureaucracy. The existing
local Committees were only advisory in nature and not endowed with real powers of taxation. Lord Ripon invited the provincial Governments to scrutinize carefully the provincial and the local accounts to ascertain receipts, expenditure, redistribution of items and legislative power had been exercised to get the desired outcome.

The second phase (since the second decade of last century) was significant because some more autonomy was granted to local bodies to impose taxes and they were also allowed to frame their own budgets. During the third phase (early of post-independence period), an attempt was made to match finances with the growing demands of local services. The fourth phase in the evolution of local Finance begins with the introduction of Community Development and National Extension Service in 1952. It gave an impetus to think in terms of integrated rural development schemes sector-wise like agriculture, animal husbandry and irrigation. The hefty government financing compared to early years for execution of development schemes had been changing the role of local bodies in the development progresses of India.

The fifth and sixth phases saw the birth of various Committees charged with the sole function of improving the base of local finance. The suggestions made by them, though useful, failed to attract the attention of the Government (Venkatraman, 1965, p.15).

It appears as though the government knew only the art of appointing Committees but failed to pay attention to some of the useful recommendations made by them. Local bodies on one hand have been crying about their inadequate resources, but on the other they never exhibited any initiative to experiment on fiscal expansion.

The question of equitable distribution of finances between State and local authorities has not been taken to its logical conclusion. It has been observed by a group of experts that the government should be interested to improve rural local finance and also grant financial autonomy to the bodies (Finance Panels for Panchayats : Hindustan Times, New Delhi, 14 May 1989). They argued the central government must have a willing mind to transfer some of its resources to ensure all round development of rural areas through the agencies of local bodies. Many of the attempts made by the government can be termed as futile exercises in the realm of local finance. The appointment of various Committees has not served the purpose.

The seventh phase started with the 73rd Constitution Amendment Act, 1992. The Act bestowed the long awaited Constitutional status of the PRIs and thereby elevating them into the prestigious status of being Constitutional bodies as, say parliament or State legislature, but also breathed a new live and vitality into these structures of local democracy by Constitutionally ordaining devolution of
financial resources by State Governments to enable them to discharge the functions expected from them (Bava, Noorjahan, April, 1996, p.15). With the 73rd Amendment Act, the time has come to strengthen the resource base of PRIs and it is also important to give them fiscal autonomy. This will allow them not to depend on grants from the higher tiers of Governments.

**Finance: Essence of Panchayati Raj Institutions**

The essence of Panchayati Raj Institutions lies in the freedom of local self-government. The local self-government institutions enjoy in selecting their own course of development, planning for it and finding it independently and hiring and firing of their own staff under their own condition of service. For this essential objective to be realized, it is necessary that they should have their own sources of finance which should be assured sources not spending donations like grants-in-aid. And, secondly, they should have complete choice of spending these finances on such development and maintenance schemes as they way choose. The resources available for local bodies are to be a large extent tied down to administrative and established expenses whatever be the source. With the definition given to Article 12 of the Constitution and the formidable armour of Article 309 and 311 of the Constitution it appears very difficult to salvage any organization that seeks funds from the Government or raise funds from the public through taxation or any other similar source available, to break through this armour (Girgliani, J.M., 1994, p.67-68). Development, therefore, is very much circumscribed by this "fence-eating the field phenomenon" of the Indian Constitution and administrative set wrote—"No matter how well intentioned a scheme may be or how completely it may harmonize with the abstract principles of justice if the tax does not suit administratively it is doomed to failure"

**Financial Autonomy of PRIs**

The emergence of PRIs as a third tier of government throws up several issues of intergovernmental transfers in the Indian Federation. The State Finance Commissions as well as the Union Finance Commission have to address the issues squarely. Even a permanent Finance Commission appears as a desirable idea.

All the Acts sincerely reproduce Article 243I of the 73rd Constitutional Amendment Act, which indicates the tasks expected of the State Finance Commissions. The problem is that even under the new dispensation following the 73rd Amendment, there have not been much serious efforts to maintain some measures of vertical fiscal balance in the division of functions and finances at the Union, State and Sub-state or local level. There is lot of mismatch at the Panchayati Raj Institutions.
level, the nature and magnitude of which varies from state to state, thus making the task of the State Finance Commissions tougher.

State Finance Commissions have to evolve some basic principles governing the transfer of resources at each tier in a district. Moreover, these SFCs have to review and even spell out the expenditure responsibilities and revenue assignments at district as well as at the state level to ensure some measure of vertical balance.

Fiscal autonomy cannot be built in a regime of grants in aid. The PRIs can play a genuine role in local development and self-rule only if they enjoy some degree of fiscal autonomy. Fiscal discipline and fiscal autonomy is the need of the hour. There must be some fiscal responsibility and autonomy at all levels. Economic efficiency and equity which are basic considerations in fiscal transfers must be kept fully in view in regard to sub-state level fiscal transfer as well.

Panchayats must enjoy the freedom to borrow or raise loans in whatever manner they choose to fund capital expenditures. Few other aspects that are important in inter-governmental fiscal transfers, they are predictability, transparency and tax coordination’s.

**SOURCES OF FUND OF PRIS IN OUR COUNTRY**

Resource mobilization cannot be seen independent of the functional task each layer of government has to perform. It is clear from the XIth schedule that the functional domain of the PRIs consists of developmental tasks and is larger than the traditional field of operation. In general, Panchayats in our country receive funds in the following ways:

- Grants from the Union Government based on the recommendations of the Central Finance Commission as per Article 280 of the Constitution
- Devolution from the State Government based on the recommendations of the State Finance Commission as per Article 243 I
- Loans/grants from the State Government
- Programme-specific allocation under Centrally Sponsored Schemes and Additional Central Assistance
- Internal Resource Generation (tax and non-tax).


Fiscal autonomy depends a great deal on tax assignments. According to Article 243 H, the legislature of a state may by law "authorize" a Panchayat to levy, collect and appropriate such taxes, duties, etc. and also "assign" such taxes collected by the state to a Panchayat, but all "subject to such conditions and limits" as have been specified in the Act.

For fiscal autonomy of the PRIs, it is important that the state should assign some of the buoyant and income elastic sources to the PRIs. There are number of taxes levied at different levels of PRIs in
different states. With the exception of some states, most of the Panchayats Acts do not make any distinction between obligatory and optional levy.

**Tax Assignment**

The village Panchayats are entrusted with a number of taxes, the important among being (Report of the study of Panchyats : Fifth Evolution Report (Planning Commission), 1958):

(i) Land tax (ii) house building tax (iii) vehicle tax (iv) tax on profession and trade (v) tax on fair and other entertainments; (vi) tax on advertisement (vii) octroi on animals or goods or both brought for sale (viii) lump sum levy on factories in lieu of taxes and (ix) special tax for construction and public works. In addition to these taxes, there are fees and charges (user charges) levied by the VPs for the provision of public facilities. They include (i) water rate (ii) lighting fee/rate (iii) street cleaning fee (iv) conservancy fee (v) drainage fee (vi) sanitary fee for public latrines and pilgrimage fees (sanitation tax/fee). Village Panchayats also levy some kind of fee for the use of common resources like: (i) fee for the use of Panchayat shelter (ii) user charges for hospitals and schools (iii) fee for the use of common resources (grazing land etc.) (iv) Fees on markets and weekly bazaars (v) fee on animals sold. Karnataka, Rajasthan and Tamil Nadu do not charge this facility, states like Andhra Pradesh, Haryana, Himachal Pradesh, Uttar Pradesh Levy Street cleaning fee and drainage fee is being levied only in Kerala, Madhya Pradesh and Rajasthan. There are eight states which levy a conservancy fee, with Kerala and Madhya Pradesh having the obligatory nature. The sanitary cess in not found common in many states. The user charges on hospitals and schools are levied only in Bihar, Rajasthan and Madhya Pradesh. Some of the states have the provision of pilgrim tax and sanitation fee for providing the sanitary facilities. Some other fees, though less common, are fee on animals sold and lump sum levy on factories in lieu of taxes.

**Shared Taxes**

Another important instrument of resource mobilization of Panchayati Raj Institutions is the tax sharing. After going through the Acts of different states, it was found that land revenue and stamp duty are the two important taxes which are in the fiscal domain of the state government shared with the Panchayats. The basis of levy of land revenue is agricultural land and the stamp duty is levied on the transfer of properties.

**Stamp Duty**

Stamp duty is another important shared tax, which is a tax on tax on transfer of property. Stamp duty is a buoyant source of revenue for most of the states. It is shared only in respect of addition to basic levy. The base levy is not shared with local institutions under the present Acts. The states
where the additional stamp duty is shared are Bihar, Gujarat, Rajasthan and Uttar Pradesh. In the remaining states it is not shared. In large number of states, there is an additional stamp duty between 1-5 percent. Gujarat and Rajasthan empower Gram Panchayats to levy local surcharge instead of rates capped at some percentage of the basic levy.

Royalties

The royalties collected by the State Government on minor minerals and materials like granite and sand are shared the Panchayats in Gujarat and Maharashtra, whereas, sharing is not done in other States. Andhra Pradesh has also empowered Gram Panchayats to levy a local surcharge on materials. The 13th Finance Commission, in their recommendations, has clearly mentioned that:

Given the increasing income of State Governments from royalties, they should share a portion of this Income with those local bodies in whose jurisdiction such income arises (Para 10.179).

Forest Revenue

The revenue from forest areas collected by the ‘state government is basically part of the PRIs fiscal domain. In most of the states it is not shared with the Panchayati Raj Institutions. Only Gujarat and Maharashtra share the forest revenue with Zila Parishads. Gujarat is the only slate, where Panchayat Raj Act has indicated the importance of sharing of forest revenue with the Gram Panchayats. The sharing is done on the basis of per capita rate capped by average per capita land revenue.

Inter-governmental Transfers

Grants-in-aid is the main feature of fiscal institutions in the federal set up. Grants could be of two types’ specific purpose and general purpose. In the specific purpose grant there is a condition attached to them to ensure that apart from spending the amount for the purpose for which it was given. The amount of this grant could be decided in several ways. A certain percentage of locally finance expenditure may be assigned to a given service; i.e. a certain amount may be assigned to each unit of need.

Another type of grant is general purpose grant or unconditional grant. In this kind of grant, no such conditions are attached. Local bodies can use this grant according to their own local priorities. Generally, this grant is given to the financially weak panchayats to uplift the standard of services provided by the same. Moreover, in the conditional grant, there is a ‘matching grant’. PRIs are supposed to match the grant with their own revenue.

Besides the above mentioned grants, there are several other kinds of grants also, viz. establishment grants, block grants, roads maintenance grants and miscellaneous grants. The allocation of this type...
of grant is generally made arbitrarily to be determined by the state.

Grants-in-aid

At the Zila Parishad level in several states, there is provision of grants from the centre and state to PRIs, but states like Gujarat Haryana, Himachal Pradesh, Kerala and Orissa do not have this provision. In states like Andhra Pradesh and Orissa, there is a provision of grants from all India bodies and institutions for the development of cottage, village and small scale Industries. There is a Provision in Andhra Pradesh Panchayati Raj Act-mat the government shall make an actual grant of Rs. 5 per person residing in the district. Gujarat has made provision in its Act that special grant in accordance with the rates, grants of 2 percent of forest revenue. In Haryana there is a provision of 5-10 percent of the funds to be allotted to district as grants-in-aid by the government under the plan scheme for Development and Panchayat department In Karnataka, Maharashtra and Tamil Nadu, the establishment grant to cover the expenses of establishment are provided for. In addition, Maharashtra also makes the provision of (i) purposive grant per annum by the State (ii) grants for plan scheme, (iii) Incentive grants, and (iv) district equalization grant to remove inter district disparities in economic development.

After screening the various Acts, it has been found that there is a provision of grants at the block level from the centre and state governments in eight states. Grants from Zila Parishad and other local bodies are also provided in West Bengal and Karnataka. Based on population, an annual grant of Rs 1 per person residing in the block is provided only in Andhra Pradesh. Haryana makes the provision grants for the implementation of community development and rural development programme. The discretionary grant and establishment grant to cover the expenses of establishment is provided in Karnataka. Maharashtra and Tamil Nadu provide local cess grants and local road grants for the maintenance of roads.

At the village level also, the grant from government, Zila Parishad and Panchayat Samiti appears to be the most common in majority of the States. Karnataka has the provision of providing a kind of discretionary grant and annual grants of Rs 1 lakh to every Gram Panchayat for maintenance of electricity.

SOURCE OF FUND OF PRIs IN WEST BENGAL

The sources fund of the Panchayats in West Bengal may broadly be categorised into four groups, namely, (i) own sources of revenue income (ii) inter governmental transfers in the form of tax shares, costs of assigned schemes and grants in-aid, (iii) loans from financial institutions and Government and (iv) public contributions/donations. Again, own sources of income can be
generated out of tax and non-tax revenues for GPs and only non-tax for PSs and ZPs. GPs can collect tax on land and building levied on the 'annual value' of the land and buildings. The annual value is determined at 6 per cent of market value of the land and building and the rate of tax varies from 1 to 2 per cent depending on the annual value. GPs can also impose conservancy rate, drainage rate and general sanitary rate and fees for grazing cattle on vested land, for use of burning ghat, registration of shallow or deep tube well, licence on dogs, birds and domestic animals, etc.. PSs and ZPs do not have tax powers. All the three tier Panchayats can collect tolls for use of roads, bridges, ferries vested in them or under their management, rates as water rate, lighting rate and fees for arranging sanitary arrangements at the places of worship, pilgrimage, fairs and melas, fees for registration of running trade and income from assets generated by them. Since some of the tolls, rates and fees are overlapping, the general rule is that the Panchayat at a certain tier will not levy a toll, rate or fee if the same has already been imposed by the Panchayat at any other tier.

The Panchayats are heavily dependent on government grants. The following broad conclusions may be drawn with regard to the panchayat finance in our state:

✓ Internal resource generation at the Panchayat level is weak.
✓ This is partly due to a thin tax domain and partly due to Panchayats' own reluctance in collecting revenue.
✓ Panchayats are heavily dependent on grants from Union and State Governments.
✓ A major portion of the grants both from Union as well as the State Governments is scheme specific. Panchayats have limited discretion and flexibility in incurring expenditure.

Like most of the states in India, the PRIs in West Bengal are mainly funded by the Government, both state and central. The funds for ZPs and PSs are lodged in Treasury in Deposit Account (head "8448-Local Fund Deposit Account, 109- Panchayat Bodies"), which is operated as non-interest bearing banking account. Centrally sponsored scheme funds are kept in banks in Savings Account according to guidelines for the respective schemes. The funds for GPs are to be kept in Savings Bank Account at the nearest Post Office or a Scheduled Bank or a Co-operative Bank. The flow of fund as received by the PRIs from the upper tier governments may be depicted as below:
Internal Resource Mobilization

The key to effective functioning of the Panchayats lies in their ability to mobilize resources on their own. It has been now advocated by experts that Community involvement in raising internal resources create scope for greater participation and brings local people together for achieving common goals (Mukherjee, 1996, p.25). Besides, when funds are available internally, outside control and restriction are minimised. Like other states, however, the resource mobilisation in terms of own source of income of PRIs is very low compared to the total volume of expenditure of these bodies. The third SFC (2008, p.56) has pointed out that it is not uncommon to find panchayat bodies whose own sources of income account for less than 20 per cent of total revenue income.

In view of the above the provisions of the Act for internal resource mobilisation is discussed below.
Fiscal Power of GPs

The Act empowers a GP to levy taxes on account of various sources which fall under its jurisdiction. These are as follows:

Section 46 (1): A GP shall impose yearly property tax on lands and buildings within the local limits of its jurisdiction;

Section 46(4): A GP shall impose on all transfers of immovable property situated within the local limits of the Gram, a duty in the shape of an additional stamp duty at the prescribed rate;

Section - 47(1): Subject to such maximum rates as the State Government may prescribe, GP may levy the following:

1. fees on the registration of vehicles;
2. fees on plaints and petitions and other processes in suits and cases instituted before the Nyaya Panchayat concerned;
3. a fee for providing sanitary arrangements at such places of worship or pilgrimage, fairs and melas within its jurisdiction;
4. a water rate, where arrangement for the supply of water for drinking, irrigation or any other purpose is made by the GP within its jurisdiction;
5. a lighting rate, where arrangement for lighting of public streets and places is made by the GP;
6. a conservancy rate, where arrangement for clearing private latrines, urinals and cesspools is made by the GP;
7. fees on registration for running trade, wholesale or retail, within the jurisdiction of the GP;
8. tolls on persons, vehicles or animals or any class of them at any tollbar which is established by the GP on any road or bridge vested in, or under the management of, the GP;
9. tolls in respect of any ferry established by, or under the management of, the GP;
10. fees on license on dogs and birds and other domestic pet animals;
11. a general sanitary rate where arrangement for the construction and maintenance of public latrines is made by the GP;
12. a drainage rate where arrangement for regular clearance of common drains is made by the GP;
13. fees for grazing cattle on grazing land vested in, or under the management and control of, the GP;
14. fees for use of burning ghat vested in, or under the management and control of, the GP;
15. fees on registration for shallow or deep tube-wells fitted with motor driven pump sets and installed for irrigation for commercial purposes,
16. fees on the village produces sold in the village market organized by the GP.

Section 47A: A GP may borrow money from the State Government or, from banks or other financial institutions for furtherance of its objective on the basis of such specific schemes as may be drawn up by the GP for the purpose.

Fiscal Power of Panchayat Samiti

Section 133(1) of the Act prescribes that subject to such maximum rates as the State Government may prescribe, a Panchayat Samiti may—
(a) levy tolls on persons, vehicles or animals or any class of them at any toll-bar established by it on any road other than a Kutch road or any bridge vested in it or under its management,
(b) levy tolls in respect of any ferry established by it or under its management,
(c) levy the following fees and rates, namely,
  • fees on the registration of vehicles;
  • a fee for providing sanitary arrangements at such places of worship or pilgrimage, fairs and melas within its jurisdiction as may be specified by the State Government by notification;
  • a fees for license referred to in sub-section (2) of section 116;
  • a fee for license for a hat or market referred to in section 117;
  • a water rate, where arrangement for the supply of water for drinking, irrigation or any other purpose is made by the Panchayat Samiti within its jurisdiction;
  • a lighting rate, where arrangement for lighting of public streets and places is made by the Panchayat Samiti within its jurisdiction.

Borrowing of money

Section 135A prescribes a Panchayat Samiti may borrow money from the state Government or, from banks or other financial Institutions, for furtherance of its objective on the basis of specific scheme as may be drawn up by the Panchayat Samiti for the purpose.

Fiscal Power of Zilla Parishad

The Act empowers a ZP to levy taxes on account of various sources. These are named as below:
Section 162: A Zilla Parishad may require the owner or the lessee of a fair or mela or an owner or a lessee of land intending to hold a fair or mela thereon to obtain a licence in this
behalf from the Zilla Parishad on such terms and conditions as may be prescribed and on payment of a fee for such licence.

Section 181(1): A Zilla Parishad may levy tolls on persons, vehicles or animals or any class of them at toll-bar established by it on any road other than a kutch road or any bridge vested in it or under its management levy tolls in respect of any ferry established by it or under its management.

It can also levy the following fees and rates, namely:

i. fees on the registration of vehicles;

ii. a fee for providing sanitary arrangement at such places of worship or pilgrimage, fairs and melas within its jurisdiction as may be specified by the State Government by notification;

iii. A fee for licence as referred to in sub – sections of Sec. 162;

iv. A water rate, where arrangement for the supply of water for drinking irrigation or any other purpose is made by the Zilla Parishad within its jurisdiction;

v. A lighting rate, where arrangement for lighting of public streets and places is made by the Zilla Parishad within its jurisdiction.

Borrowing of Money

Section-182A: Notwithstanding anything contained in section 182, a Zilla Parishad may borrow money from the state government, or from banks, or other financial institutions for furtherance of its objective on the basis of specific schemes as may be drawn up by the Zilla Parishad for the purpose.

Framing of Bye Laws by the Panchayats for Collection of Revenue

Any Panchayat can collect non-tax revenue by way of adopting appropriate Bye-law in consonance with the provisions of the Panchayat Act. For this purpose the State Government has determined the maximum rate of toll, fee or rate to be levied by each GP, PS and ZP. At the same time a number of trades and business have already been declared as offensive or dangerous in terms of section 116 (1) of the West Bengal Panchayat Act, 1973 and a PS may levy fee under section 116 (2) for granting license in respect of offensive or dangerous trades and business subject to the maximum rates as fixed by the State Government under the Department of P&RD, GOWB Notification No. 1272/PN/O/I/1T-1/04 dated 28.03.2005. Other than those, GP issues Trade Registration Certificates for running trades and renews license against a fee. Framing of Bye-law has been made mandatory.
for each Panchayat and each Panchayat body can impose and levy non-tax revenue only after making Bye-law.

The Panchayat Act prescribed the composition of Panchayat Fund to be constituted by the PRIs of each of the three tiers. The details are narrated below.

**Gram Panchayat**

According to section 45 of The West Bengal Panchayat Act, there shall be constituted a Gram Panchayat Fund bearing the name of the Gram Panchayat and there shall be placed to the credit thereof—

(a) Contributions and grants, if any, made by the Central or the State Government;

(b) Contributions and grants, if any, made by the Zilla Parishad, Mahakuma Parishad, Council, Panchayat Samiti or any other local authority;

(c) Loans, if any, granted by the Central Government or the State Government;

(d) All receipts on account of taxes, rates and fees levied by it;

(e) All receipts in respect of any schools, hospitals, dispensaries, buildings, institutions or works vested in, constructed by or placed under the control and management of, the Gram Panchayat;

(f) All sums received as gift or contribution and all income from any trust or endowment made in favour of the Gram Panchayat;

(g) All such fines and penalties imposed and realised under the provisions of this Act as may be prescribed;

(h) All other sums received by or on behalf of the Gram Panchayat.

**Panchayat Samiti**

According to The West Bengal Panchayat Act, 1973, there shall be constituted a Panchayat Samiti Fund bearing the name of the Panchayat Samiti and there shall be placed to the credit thereof—

(a) Contribution and grants, if any, made by the Central or the State Government including such part of the land revenue collected in the State as may be determined by the State Government;

(b) Contributions and grants, if any, made by the Zilla Parishad 'for the Mahakuma Parishad or the Council' or any other local authority;'

(c) Loans, if any, granted by the Central or the State Government or raised by the Panchayat Samiti on Security of its assets;
(d) All receipts on account of tolls, rates and fees levied by it;

(e) All receipts in respect of any schools, hospitals, dispensaries, buildings, institutions or works, vested in, constructed by or placed under the control and management of the Panchayat Samiti;

(f) All sums received as gift or contributions and all income from any trust or endowment make in favour of the Panchayat Samiti.

(g) Such fines or penalties imposed and realised under the provisions of this Act or of the bye-laws made thereunder, as may be prescribed; and

(h) All other sums received by or on behalf of the Panchayat Samiti.

Zilla Parishad

According to section 179 of The West Bengal Panchayat Act, 1973, There shall be constituted a Zilla Parishadtmd bearing the name of the Zilla Parishad and there shall be placed to the credit thereof—

(a) contributions and grants, if any, made by the Central or the State Government including such part of land revenue collected in the State as may be determined by the State Government;

(b) Contributions and grants, if any, made by a Panchayat Samiti or any other local authority;

(c) Loans, if any, granted by the Central or State Government or raised by the Zilla Parishad on security of its assets;

(a) The proceeds of road cess and public works cess levied in the district;

(e) All receipts on account of tolls, rates and fees levied by the Zilla Parishad;

(f) All receipts in respect of any schools, hospitals, dispensaries, buildings, institutions or works, vested in, constructed by or placed under the control and management of, the Zilla Parishad.

(g) All sums received as gift or contribution and all income from any trust or endowment made in favour of the Zilla Parishad.

(h) Such fines or penalties imposed and realised under the provisions of this Act or of the bye-laws made thereunder, as may be prescribed.

(i) money, if any, lying to the credit of the district Chowkiidary reward fund constituted under section 25 of the Bengal Village Self-Government Act, 1919, the control over which rests with the District Magistrate, shall be credited by the District Magistrate to the Zilla Parishad Fund;

(j) All other sums received by or on behalf of the Zilla Parishad. Sources of finance of PRI's under Howrah District
SOURCES OF FINANCES OF PRIS UNDER HOWRAH DISTRICT.

District Consisting of 157 GP's, 14 Ps and 1Z P (i.e. Howrah). The sources of finance in the district are divided by two:

1. Own source

2. Financed by upper tier Government i.e. both central and state Government.

The details of both sources of finance are shown in table No. 3.1
Table: 3.1
Comparative List Showing Sources of Panchayats' Income of Howrah District

<table>
<thead>
<tr>
<th>Gram panchayat</th>
<th>Panchayat Samiti</th>
<th>Zilla Parishad</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Sources</strong></td>
<td><strong>External Sources</strong></td>
<td><strong>External Sources</strong></td>
</tr>
<tr>
<td>Receipts of Grant in Aid from central or State Government - The Non-Plan finance GP staff salary, TA/DA/Remuneration of representatives etc. The plan schemes are IAY, NOAPS / IGNOAPS, NFBS, NSAP CONTINGENCY, SGRY, MGNREGA, FUND FROM 11th and 12th Finance Commission, 2nd State Finance Commission etc. And Contribution from Zilla Parishad / Panchat Samiti /other Agencies.</td>
<td>Fund from external source consist of non-plan fund and plan fund. The Non-Plan finance PSs staff salary, TA/DA/Remuneration of representatives etc. The plan schemes are IAY, NOAPS / IGNOAPS, SGRY, MGNREGA, FUND FROM 11th and 12th Finance Commission, 2nd State Finance commission etc. And Contribution from Zilla Parishad, State Government, Fund from MP, MLA LADs etc.</td>
<td>Fund from external source consist of non-plan fund and plan fund. The Non-Plan finance ZPs staff salary, TA/DA/Remuneration of representatives etc. The plan schemes are fund from State and Central Government and other agencies.</td>
</tr>
<tr>
<td><strong>Internal Sources</strong></td>
<td><strong>Internal Sources</strong></td>
<td><strong>Internal Sources</strong></td>
</tr>
<tr>
<td>i. Panchayat Tax.</td>
<td>i. License fee for Hat &amp; Bazar</td>
<td>i. Development Fees</td>
</tr>
<tr>
<td>ii. Fees for the permission of construction of building.</td>
<td>ii. Toll received from Bus Stand, Bridge, Road etc.</td>
<td>ii. License fees from Ferry</td>
</tr>
<tr>
<td>iii. Fees for road construction.</td>
<td>iii. Sale of Tender Form</td>
<td>iii. Fees from Garchumuk Bunglow</td>
</tr>
<tr>
<td>iv. Fees for road cutting.</td>
<td>iv. Rent from Mancha, Mukta Mancha (Open Stage etc.)</td>
<td>iv. License fee from Land and House</td>
</tr>
<tr>
<td>v. Public Donation received for development work.</td>
<td>v. Interest on own fund.</td>
<td>v. Fine and Penalty</td>
</tr>
<tr>
<td>vi. Fees for Trade License.</td>
<td>vi. Lease money Collection from public toilets.</td>
<td>vi. Outdoor ticket fee from Polyclinic</td>
</tr>
<tr>
<td>vii. Sale of scraps of Tube-well parts.</td>
<td>vii. Registration or renewal charges of Danger Trade License (fees of veaiichels)</td>
<td>vii. Mela ( Fair ) License</td>
</tr>
<tr>
<td>viii. Interest on own fund.</td>
<td></td>
<td>viii. Tender Fees</td>
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<tr>
<td></td>
<td></td>
<td>ix. Vetting and Building Plan fees</td>
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<tr>
<td></td>
<td></td>
<td>x. Registration of Contractors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>xi. Meeting Hall booking fee and Rent from SSA</td>
</tr>
</tbody>
</table>
ix. Collection from public toilets.

x. Registration fees of vehicles.

xi. Enlistment Fees of the contractors.

xii. Advertisement on Barshik Pratibadan (Annual Reports).

xiii. Land and Building Tax.

xiv. Khonar (Cattle Field maintained by GP)

xv. Auction of Trees.

xvi. Fees received for the Permission of Charity Show (Jatras, cultural programmes etc.)

xvii. Fees from Ferry Ghat.

xviii. Fees for construction of Telephone Tower.

xix. Collections from Led House, Shops etc.

xx. Fees from Mukta Mancha (Open Stage)

xxi. Receipts from Buy Law.

xxii. w. Fees for Computer Tanning Programme

xxiii. x. Sales of old scrap etc.

vii. Enlistment and Renewal Fees of the contractors.

ix. Advertisement on Barshik Pratibadan (Annual Reports).

x. Auction of Trees, old scraps etc.

xi. Fees received for the Permission of Charity Show (Jatras, cultural programmes etc.)

xii. Toll from Ferry Ghats.

xiii. Collections from Remunerative Assets (Market etc)

xiv. Receipts from Buy Law.

xv. Fees for Computer Tanning Programme.


xvii. Water Tax from Sulav Complex.

xviii. License fees from Fisheries

xix. income on account of Toll

Source: Compiled by the Researcher