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An Overview Of The Effective Financial Management Of Panchayati Raj Institutions In India

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Abstract: ***Traditionally in India, plans and programs for the rural population originated at the state level. This top-down approach imposed development priorities on rural communities and restricted the development of administrative institutions at rural communities and restricted the development of administrative institutions at rural local bodies called Panchayati Raj Institutions (PRIs) in India. In the 1990 there was a paradigm shift in the strategy for rural development. The Government of India divided to decentralize financial and administrative powers to PRIs. As a result, the administrative capacity of PRIs began to accommodate their new role.***

Under the Constitution Amendment Act (CAA), the state legislature is supposed to devolve responsibilities, powers and authorities to panchayats to enable them to function as institutions of self-government. The legislature of a State may authorize the panchayats to levy, collect and appropriate certain taxes, duties, tolls and fees, etc, and also assign to them the revenues of certain state level taxes subject to such conditions as are imposed by the State government. Further, grants-in-aid may also be provided to these bodies.

The main objective of the present study are to study that how revenues and expenditures are managed by Panchayati Raj Institutions by gather the statistics about liquidity and profitability of a PRIs in India. The suggested ways and means will help in improving the financial management and working of Panchayati Raj.

Keywords: leadership, decentralized finance, liquidity and profitability, Self- governance, Grant-in-aid.

I. CONCEPT OF EFFECTIVE FINANCIAL MANAGEMENT

Financial management is concerned with effective utilization of funds at all times. It ensures whether sufficient funds are available to meet various day-to-day requirements of a PRI. This involves maintaining both liquidity and profitability of a PRI effectively and efficiently.

As regards profit maximization, it sets such effective tools and techniques through which the objective of optimum development can be achieved successfully. In this way, it is concerned with managing timely utilization of grants received in adequate manner in the works prescribed to carried out by a PRI.

In relation to the investment activities, one of the important tasks of financial management is to undertake capital budgeting and management of mergers, the process of which leads to gain high returns to a business entity on the basis of managerial efficiency. While encompassing various financing activities, financial management deals with cultivating sources and raising funds that leads eventually to maximize the wealth of PRIs.

Thus, being concerned with all the aspects of PRI operations, finance function is of great value and importance in a PRI leading to long term progress and development. It is due to the efficient financial management that the value of an institution is increased, while the ability of an entity in terms of its efficiency can be immensely developed as well as the liquidity position be maintained efficiently at all times.

Effective financial management is critical to any organisation. In the context of local government, a lack of sound financial management will have a direct adverse impact on service delivery as there is a strong correlation between sound financial management and effective service delivery.

II. REVIEW OF LITERATURE

The area of public financial management of Panchayats has not been much researched. However, while scanning the literature on the theme, very few studies were found which are mainly related to the management of common property resources.

Singh (1995) conducted a study on Common Land Encroachment and Panchyat Finances with the purpose to examine the problems of unauthorized occupation on common land in Haryana and consequent loss of income to the Panchayats as well as identification of the factors which leads the occurrence of this phenomenon. The main findings of the study inter alia, include : encroachment of panchayat land and abadi deh; not giving of fertile land to forest department; cultivation of common land by the Panchyats themselves and for this they need to should be given agricultural implements; people with political links and people with muscle powers encroached more Panchayat land; on an average, in a district, about one thousand cases of illegal possession are always pending in different courts and the Legal Officers have practically failed to justify their existence and protect the interest of Gram Panchayats in this regard.

Annamalai (2000) concluded a study on Mobilization of Resources by Gram Panchayats through Common Property Resources in the State.

For this purpose, he selected the Sandhir Gram Panchayat (GP) which falls under Nilokheri Block of Kamal district. The study revealed that out of total common land of Kamal district, about 4 perenct was encroached upon by the villagers, causing heavy loss of income and other benefits to the Gram Panchayats. This is the case of under-utilization of the common property resources in the village. As a recommendation the study suggested that local initiative and participation could ensure the restoration of control over common property resources by the Panchayats.

Rishi Pal (2002) has conducted a study on the Finances of PRIs in Haryana with the objectives to analyse, inter alia, the devolution of powers to Panchayats in Haryana and on the basis of that the researcher suggested some measures to increase the financial resources of the Panchayats. The findings of the study, among others, include: the only source of income on which Panchayats are depending in the income from Shamlat land; trend of grant-in-aid and other sources are just nominal and grant are not being increased on yearly basis; the Haryana Panchayati Raj Act, 1994 does not empower PRIs to mobilize adequate resources. Even some of the taxes and cess levied earlier have been abolished; declining trend of own revenue.

OBJECTIVE OF THE STUDY

The main objectives of the study are:

- ✓ To analyze the Effective Financial Management of Panchayati Raj Institutions in India by gather the statistics about liquidity and profitability of a PRI's in India
- ✓ To develop a better understanding of PFM issues in PRIs by mapping existing processes with motive of identifying good practices
- ✓ To synthesize knowledge gained from analytical work with experience gained from working with PRIs at the project level.

This combined experience will inform the design of future interventions with PRIs. It may also be of value to central, state and local governments that want to improve their own PFM arrangements with PRIs.

III. RESEARCH METHODOLOGY OF THE STUDY

The methodology of present study is going to be descriptive as well as explorative. In my research, I am going to describe the existing financial management system in Panchayati Raj Institutions in India and to develop a better understanding of PFM issues in PRIs by mapping existing processes with motive of identifying good practices; and to synthesize knowledge gained from analytical work with experience gained from working with PRIs at the project level. Therefore my research has the descriptive nature.

I have used secondary data for my research. The main source of data would be Panchayati Raj & Rural Development and official sites of Ministry of Panchayati Raj & Rural Development of India as well as Rajasthan.

REVENUE POWER OF PANCHAYATS: TAXES

The power of panchayats to impose taxes was considered imperative to enshrine in the constitution under article 243H, to impart certainty, continuity, and strength to panchayats. The taxation power of the Panchayats essentially flow from Article 243H, which reads that the Legislature of a State may, by law

- ✓ authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- ✓ assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits
- ✓ provide for making such grants-in-aid to the Panchayat from the Consolidated Fund of the State; and
- ✓ provide for constitution of such funds for crediting all moneys received, respectively by or on behalf of the Panchayat and also for the withdrawal of such moneys there from as may be specified in the law.

Article 243-I of the Constitution mandates setting up of State Finance Commission (SFC) with the objective of reviewing the financial position of the Panchayats and making recommendations as to the principles which should govern the following:

- ✓ distribution between the States and Panchayats of the net proceeds of the taxes, duties, tolls and fees,
- ✓ determination of taxes, duties, tolls and fees to be assigned to Panchayats,
- ✓ grants-in-aid to the Panchayats, and
- ✓ measures needed to improve the financial position of the Panchayats.

Tax or fee	Andhra Pradesh	Assam	Bihar	Gujarat	Haryana	Himachal Pradesh	Karnataka	Kerala	Madhya Pradesh	Maharashtra	Odisha	Punjab	Rajasthan	Tamil Nadu	Uttar Pradesh	West Bengal
House or property tax	V	V	V	V	V	V	V	V	V	V		V	V	V		V
Surcharge on house or property tax								V		D						
Tax on agriculture land for specific purpose	V															
Cess on land revenue or surcharge	V, I	I		V		V		V	V						V	
Surcharge on additional stamp duty	V	V			I	V	V		I	D				V		V
Tax on professions, trades, calling, and so forth		V, I	V,D	D		V	V		V	V		V			D	
Octroi				V						V			V			
Entertainment tax		V	D	V			V	V	I			V			V	V
Pilgrim tax or fees		V		V			V			V			V			
Tax on advertisements	V						V	V								
Education cess				I								I	I			
Tolls	V	I,D	I,D	V										V	D	V,D
Tax on sale of firewood and slaughter houses		V									V					
Tax on goods sold in a market, haat, fair, and so forth			I,D		I	V					V					
Tax on shops and services		V			V	V										
Vehicle tax	V	V		V			V		V	V	V		V		V	
Animal tax				V					V	V	V				V	
Conservancy rate	V	V	V	V				V	V		V	V			V	V
Lighting rate	V	V,D	V, I,D	V		V		V	V	V	V	V	I		V, I,D	V, I,D
Water rate	V	V, D	V, I,D	V	V, I	V	V	V		V, I,D	V	V, I	V, D		V, I,D	V, I,D
Drainage rate	V			V				V			V				V	V
Special tax for community civic services or works					V	V		V	V			V	V, I			
Surcharge on any tax imposed by village panchayat	I			I, D									I			I

Note: V = village panchayat, I = intermediate panchayat, D = district panchayat. More than one sign indicates the concurrent power of panchayats for the respective tax.

Source: Alok VN., Role of Panchayat Bodies in Rural Development since 1959, 2015.

Table 1: Revenue Power of Panchayats

Table 1 shows that a variety of taxes have been devolved to different levels of panchayats. The relative importance of these taxes varies from state to state. The intermediate and district panchayats are endowed with powers to collect very few taxes, whereas village panchayats are given substantial taxing powers.

In a number of cases, under the tax rental arrangement, the village panchayats collect taxes and pass them on to the higher level of panchayats. Property tax, cess on land revenue, surcharge on additional stamp duty, tolls, tax on professions, tax on advertisements, non-motor vehicle tax, octroi, user charges, and the like contribute the maximum to the small kitty of own-source revenue, which contributes only 6 to 7 per cent of the total expenditure of panchayats. In most states, the property tax contributes the maximum revenue. However, this tax remains inelastic because of inefficient administration in its collection. Its assessment is based on the annual rental value of taxation and its associated evil: under declaration of rentals. However, some progressive states have reformed the tax structure and use the unit area method in determining the tax base.

After own-source revenues, assigned revenues are the most efficient in the dispensation to panchayats. Such revenues are levied and collected by the state government and are passed on to panchayats for their use. Some states deduct collection charges. The practices in assigning revenue are marked by large interstate variation. However, typical examples of assigned revenue are the surcharge on stamp duty, cess or additional tax on land revenue, tax on professions, and entertainment tax. In many states, these taxes form part of the own-source revenue of panchayats.

Table 2 showing per capital revenue receipt of Panchayats (all tiers) of all Indian states.

S. No.	States	2001-02	2004-05	2005-06	2006-07	2007-08
1	Andaman & Nicobar	NA	NA	NA	NA	NA
2	Andhra pradesh	27.2	57.4	62.4	65.7	83.4
3	Arunachal Pradesh	NA	NA	NA	NA	NA
4	Assam	3.1	3.8	3.8	5.3	6.7
5	Bihar	1.0	NA	NA	0.8	1.2
6	Chandigarh	NA	NA	NA	NA	NA
7	Chhattisgarh	34.3	13.5	14.0	14.6	15.6
8	Dadra & Nagar Haveli	NA	NA	NA	NA	NA
9	Daman & Diu	NA	NA	NA	NA	NA
10	NCT of Delhi	NA	NA	NA	NA	NA
11	Goa	113.0	134.6	170.3	201.5	202.0
12	Gujarat	23.7	37.5	25.7	31.5	41.6
13	Haryana	46.2	127.2	163.1	173.8	165.6
14	Himachal Pradesh	6.1	10.9	10.2	10.5	10.8
15	Jammu & Kashmir	NA	0.3	0.3	0.3	2.2
16	Jharkhand	NA	NA	NA	NA	NA
17	Karnataka	19.1	23.5	34.8	44.4	83.8
18	Kerala	92.2	103.8	121.5	126.4	105.8
19	Lakshadweep	NA	NA	NA	NA	NA
20	Madhya Pradesh	31.6	12.1	13.7	9.7	11.2
21	Maharashtra	58.4	105.1	92.0	98.4	107.5
22	Manipur	NA	2.2	1.9	1.9	2.0
23	Meghalaya	NA	190.6	259.7	267.8	292.8
24	Mizoram	NA	NA	NA	NA	NA
25	Nagaland	NA	NA	NA	NA	NA
26	Odisha	2.9	3.0	3.0	3.1	3.1
27	Puducherry	NA	NA	NA	NA	NA
28	Punjab	49.9	92.8	91.8	107.2	27.9
29	Rajasthan	8.4	3.3	3.2	3.4	3.0
30	Sikkim	NA	NA	NA	NA	NA
31	Tamil Nadu	16.6	67.8	73.1	83.2	80.2
32	Tripura	1.8	2.8	3.7	5.2	5.0
33	Uttar Pradesh	4.4	5.2	6.1	5.5	6.5
34	Uttarakhand	7.7	12.3	14.2	16.0	0.4
35	West Bengal	5.6	11.3	12.1	16.3	0.0
	All States	16.3	29.2	33.7	36.9	35.9

Source: Data from Panchayati Raj Department of various states and the XIII Finance Commission. Note: NA: Data not available from given sources

Table 2: Per Capita Own Revenue of Panchayats (all tiers)

Table 3 shows own revenue of Panchayats for given years and percentage growth for the period from 2003-08.

S.No.	States	2005-06	2006-07	2007-08	Annual Growth in 2003-2008 (%)
1	Andaman & Nicobar	NA	NA	NA	n.a.
2	Andhra Pradesh	363.7	386.8	495.7	11.4
3	Arunachal Pradesh	NA	NA	NA	n.a.
4	Assam	9.4	13.1	16.7	13.1
5	Bihar	0.0	6.7	9.7	n.a.
6	Chandigarh	NA	NA	NA	n.a.
7	Chhattisgarh	24.8	26.0	28.1	5.2
8	Dadra & Nagar Haveli	NA	NA	NA	n.a.
9	Daman & Diu	NA	NA	NA	n.a.
10	NCT of Delhi	NA	NA	NA	n.a.
11	Goa	11.6	13.8	14.1	12.0
12	Gujarat	86.0	106.5	142.2	13.9
13	Haryana	260.2	280.6	270.3	24.1
14	Himachal Pradesh	5.9	6.1	6.3	0.4
15	Jammu & Kashmir	0.2	0.2	1.8	58.7
16	Jharkhand	0.4	0.4	0.5	14.1
17	Karnataka	125.8	161.5	306.7	29.6
18	Kerala	299.1	313.8	265.0	7.5
19	Lakshadweep	NA	NA	NA	n.a.
20	Madhya Pradesh	66.0	47.5	55.8	1.0
21	Maharashtra	535.0	577.0	635.0	2.1
22	Manipur	0.3	0.3	0.3	10.2
23	Meghalaya	51.0	53.2	58.8	18.7
24	Mizoram	NA	NA	NA	n.a.
25	Nagaland	NA	NA	NA	n.a.
26	Odisha	9.9	10.1	10.4	2.5
27	Puducherry	NA	NA	NA	n.a.
28	Punjab	152.2	178.8	46.7	-9.5
29	Rajasthan	14.9	16.2	14.5	1.8
30	Sikkim	NA	NA	NA	n.a.
31	Tamil Nadu	242.9	273.0	259.6	5.3
32	Tripura	1.0	1.5	1.4	27.4
33	Uttar Pradesh	87.2	80.5	96.2	7.6
34	Uttarakhand	9.5	10.9	0.3	-33.0
35	West Bengal	73.7	100.3	NA	n.a.
	All States	2430.7	2664.6	2736.4	8.4

Source: Updated from VN Alok (2006) with the data from Panchayati Raj Department of various states and the XIII Finance Commission. Note: NA: Data not available from given sources; NA: not applicable

Table 3: Own Revenue of Panchayats (all tiers)(Rs. in crore)

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Panchayats rely more on fiscal transfers from the state government in the form of shared taxes and grants (Tables 2 and 3). State taxes are shared according to the recommendations of the State Finance Commission (SFC). Constitution of the SFC at a regular interval of five years is a mandatory requirement for states. The Conformity Acts of the CAA provide for the composition of the SFC, the qualifications of its members, and the manner of their selection. Every recommendation of the commission is to be laid before the state legislature.

District	Total Available Funds	Total Expenditure	Un - Utilized Funds	Percentage of Un - Utilized Funds
Jaisalmer	161861	78233	83628	51.67
Jaipur	317860	158457	159404	50.15
Udaipur	916092	483224	432868	47.25
Bikaner	205535	108851	96684	47.04
Sikar	197554	110361	87193	44.14
Sirohi	119236	67518	51718	43.37
Churu	341083	202991	138092	40.49
Dholpur	201616	122697	78919	39.14
Rajsamand	155283	97024	58259	37.52
Jhunjhunu	147524	93658	53866	36.51
Tonk	115734	73520	42213	36.47
Bundi	84960	54854	30106	35.44
Kota	150509	98803	51706	34.35
Bharatpur	138342	92564	45778	33.09
Jalore	110295	73827	36468	33.06
Ganga nagar	286958	192114	94844	33.05
karoli	79874	53479	26395	33.05
Alwar	358191	240233	117958	32.93
Hanumangarh	111371	74875	36496	32.77
Baran	27057	18550	8507	31.44
Barmer	431355	302819	128536	29.80
Dausa	103204	75429	27775	26.91
Pratapgarh	14178	10414	3764	26.55
Jhalawar	139155	103296	35859	25.77
SM	64240	47787	16453	25.61
Chittorgarh	164577	123527	41050	24.94
Jodhpur	222712	168738	53974	24.23
Ajmer	264657	202327	62330	23.55
Banswara	123414	94515	28899	23.42
Nagaur	431578	334221	97357	22.56
Bhilwara	155615	125713	29902	19.22
Dungarpur	37795	31648	6147	16.26
Pali	203352	173756	29597	14.55

Source: Report on classification of local body accounts Directorate of Economics and Statistics

Table 4: District wise expenditure against the available funds for the year 2011-12 to 2013-14 in PRIs (Rupees in Lakhs)

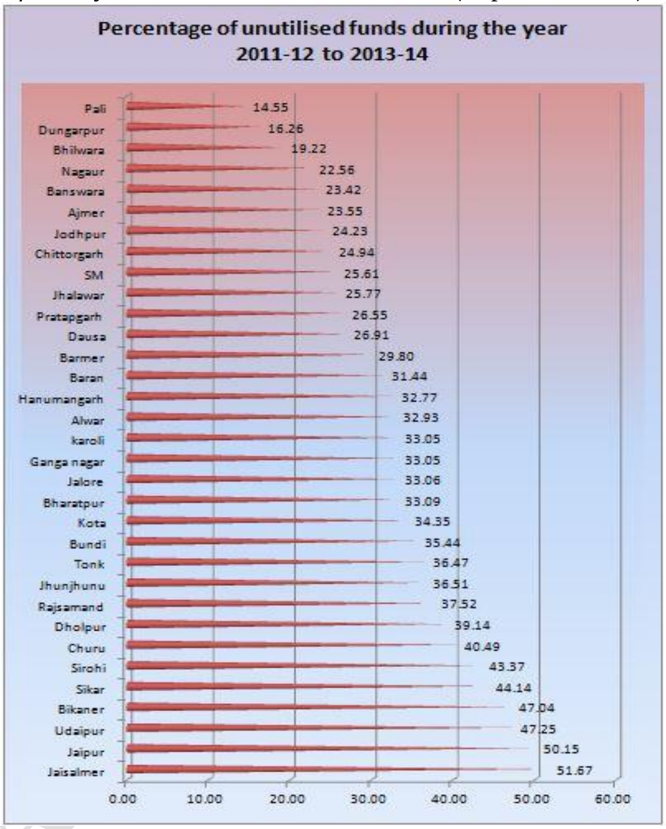

Figure 1

Above Table 4 revealed that PRIs have sufficient amount of money/funds but lake of efficient and effective planning, manpower, funds are not utilized properly. This impacts on the social development as well as infrastructural development of villages.

Report of economic and purpose wise classification of local bodied accounts published by the directorate of economics and statistics reveals that more than 30% of available funds were unutilised in 20 districts of the state during the period 2011-12 to 2013-14.Only 13 districts utilised more than 70% of available of funds during the same period. Jaisalmer and Jaipur did not utilised more than 50% of the fund available with PRIs during the period 2011-12 to 2013-14.

- ✓ It is being increasingly noticed that the Panchayati Raj Institutions are viewed only as organisational arms of political parties, especially of the ruling party in the state. The State Government, in most states, allows the Panchayati Raj Institutions to function only upon expediency rather than any commitment to the philosophy of democratic decentralisation.

State	Per Capita (Rs.)			Annual Growth of Total Expenditure
	1990-91	2000-01	2010-11	
Andhra Pradesh	205.7	792.9	345.6	14.5
Assam	1.1	3.2	800.3	29.6
Bihar	18.2	4.0	43.0	38.2
Chhattisgarh	NA	360.8	1202.5	23.7
Goa	30.1	198.2	153.7	-7.8
Gujarat	399.4	1293.50	1929.6	10.3
Haryana	54.7	142.1	585.1	31.6
Himachal Pradesh	8.6	41.2	397.9	16.3
Jharkhand	NA	NA	1.9	1.4
Jammu & Kashmir	NA	750	NA	n.a.
Karnataka	402.6	1296.2	2827.4	20.9
Kerala	46.1	644.9	823.3	17.4
Madhya Pradesh	44.5	113.9	1031.2	84.7
Maharashtra	298.4	685.8	2141.2	10.7
Manipur	7.0	25.5	493.1	10.4
Meghalaya	81.6	51.6	379.8	15.3
Nagaland	NA	NA	557.5	46.3
Odisha	65.0	37.0	544.1	18.4
Punjab	70.0	85.0	130.9	5.4
Rajasthan	218.9	361.6	66.9	10.9
Sikkim	NA	78.6	198.8	27.5
Tamil Nadu	59.7	164.7	1325.2	11.7
Tripura	5.3	186.1	1320.8	27.3
Uttar Pradesh	40.9	46.9	165.6	14.9
Uttarakhand	NA	49.3	0.4	-34.3
West Bengal	24.5	107.0	539.9	25.9
Total	148	324	327.8	17.7

Table 5: Per Capita Expenditure in Panchayats (all tiers)

As can be seen from Table 5, the per capita total expenditure of panchayats remains abysmally low in all states except Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Karnataka, Kerala, Maharashtra, and Tamil Nadu. However, the data pertaining to local governments in the reports of National Finance Commissions are not consistent. It must be kept in mind that fiscal data for Panchayats from any two sources are not comparable.

IV. FINDINGS AND CONCLUSIONS

The Constitution visualizes panchayats as institutions of self-governance. However, giving due consideration to the federal structure of our polity, most of the financial powers and authorities to be endowed on panchayats have been left at the discretion of concerned state legislatures. Consequently, the powers and functions vested in PRIs vary from state to state. These provisions combine representative and direct democracy into a synergy and are expected to result in an extension and deepening of democracy in India. Hence, panchayats have journeyed from an institution within the culture of India to attain constitutional status.

The per capita total expenditure of panchayats remains abysmally low in all states except Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Karnataka, Kerala, Maharashtra, and Tamil Nadu. However, the data pertaining to local governments in the reports of National Finance Commissions are not consistent.

A variety of taxes have been devolved to different levels of panchayats. The relative importance of these taxes varies from state to state. The intermediate and district panchayats are endowed with powers to collect very few taxes, whereas village panchayats are given substantial taxing powers. In a number of cases, under the tax rental arrangement, the village panchayats collect taxes and pass them on to the higher level of panchayats. Property tax, cess on land revenue, surcharge on additional stamp duty, tolls, tax on professions, tax on advertisements, non motor vehicle tax, octroi, user charges, and the like contribute the maximum to the small kitty of own-source revenue, which contributes only 6 to 7 per cent of the total expenditure of panchayats. In most states, the property tax contributes the maximum revenue.

However, this tax remains inelastic because of inefficient administration in its collection. Its assessment is based on the annual rental value of taxation and its associated evil: under declaration of rentals. However, some progressive states have reformed the tax structure and use the unit area method in determining the tax base.

After own-source revenues, assigned revenues are the most efficient in the dispensation to panchayats. Such revenues are levied and collected by the state government and are passed on to panchayats for their use. Some states deduct collection charges. The practices in assigning revenue are marked by large interstate variation. However, typical examples of assigned revenue are the surcharge on stamp duty, cess or additional tax on land revenue, tax on professions, and entertainment tax. In many states, these taxes form part of the own-source revenue of panchayats.

The lack of coordination amongst the PRI machinery also needs to be addressed immediately for smooth rural development. There should be a provision in constitution of a state Panchayat Council under the chairmanship of the Chief Minister may be made in the Indian Constitution. And, the leader of opposition may be made the ex-officio vice chairman of the Council to provide consensus to the development of Panchayats as fully democratic, efficient and responsible institutions.

There is a lack of accountability of Panchayats because of inadequate provisions in law relating to audit of accounts of public bodies. And, there is no time frame to conduct audit of accounts of a given year, submit the report or comply with the objections raised in the report thus leading to misuse of funds, bad implementation of projects and overall weakening of the system. Therefore, there should be changes made to these provisions for completing all the above in the given year itself. And, to ensure uniformity in this practice relating to audits of accounts, the C&AG of India be empowered to conduct the audit.

From the analysis conducted under the Panchayat empowerment and accountability and incentive scheme, the panchayat in the state of Kerala have been found far ahead of panchayats in other states with respect to their capacity, autonomy, accountability and achievements.

It can be concluded that PRIs have sufficient amount of money/funds but lake of efficient and effective planning, manpower, funds are not utilized properly. This impacts on the social development as well as infrastructural development of villages.

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