

## PANCHAYAT MONEY: A BUDGET OR A SUBSIDY?

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### ABSTRACT

*The ability of local self-governing entities, like panchayats, to finance their own expenditures through the internal generation of resources is a litmus test for the legitimacy of panchayats' claim to authority. This article argues that panchayats are becoming less reliant on devolutions from state governments because they are able to generate substantial revenue on their own and foster a culture of self-sufficiency, independence, and accountability to their constituents. It concludes that the perverse incentives currently faced by panchayats can be greatly reduced by incentivizing competition among them and introducing a rural development fund to enable them to access borrowed money, resulting in a number of substantial-good results. To analyze the growth of total revenue and total expenditure of the Panchayat in these states over the funds provided to them, and to conclude the state of the Panchayat. We analyzed and interpreted the data through the use of trend and hypothesis testing. Data processing in our study also made use of various descriptive statistical methods. These municipal authorities lacked any semblance of self-governance because their efforts to generate cash were so insignificant, and they remained highly dependent on federal funding. Both the state and federal governments made the transfers whenever it was most convenient for them. According to the study's policy recommendations, the success of the Panchayat's own resource creation capacity and the infusion of an omission and commission-free democratic setup at the grassroots level is crucial to the institution's long-term viability.*

**Keywords:** Total Revenue, Panchayat, Total Expenditure, Accountability, Independence, Self-Governance.

### INTRODUCTION

Nearly 60 years had transpired since the founding of the first contemporary PRIs. The amendments to the constitution of India were adopted in 1993. The states had been gradually transferring authority. Even if there is still much to be done, it was generally acknowledged

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that almost all nations had made major reforms in the past few decades to promote decentralized democracy in general and citizen involvement as a subset of decentralized democracy in particular. This organization served as the main point of contact between the public and the government by offering fundamental services at the community level. According to the subsidiary principle, problems should be resolved by the most decentralized competent authority. This research will attempt to analyze the financial devolution pattern of Rajasthan Panchayat Raj Institutions. While doing this, the annual growth rates of the total revenue (real) collected and the total expenditure (real) made in Rajasthan. Then, in order for these institutions to fulfill the duties outlined in the constitution, they needed to be operationally and financially enabled. Accordingly, extensive administrative and financial powers were granted to the Panchayats, and several departments were moved to them, but this did not achieve the desired autonomy. Gram Panchayats were not operating as fully functional local self-governments in the majority of the states as a result.

### **LITERARY REVIEW**

Here, an assessment of the pertinent prior studies on PRIs pertaining to panchayat finance in Rajasthan, India, that are currently available was done in an effort to identify new areas for study and avoid any overlap in existing research. According to a study, the transfers were done at the whim and mercy of the federal and state governments, which hindered the development of PRIs' independence. According to, local self-governments shouldn't only have the authority to raise money but also account for a sizeable portion of the total amount of money raised. It was unequivocally stated that if given greater authority to collect taxes, the local Panchayat might play a more significant role in the planning and execution of economic operations. In his research in Rajasthan, he came to the same conclusion: PRIs failed to increase tax revenue, hence they were entirely dependent on non-tax revenue. Additionally, he discovered that the expense heads were growing more quickly than the revenue heads. It was determined that the pressure to spend money on welfare and development efforts had outpaced the growth of revenue.

An extensive analysis of the state's finances, taking one district from each, came to the conclusion that there was neither uniformity nor continuity of incidence in rural local bodies' income or expenditure patterns, preventing the establishment of a secure and self-sufficient system. In this sense, we believed that "transfers must be planned such that those receiving them had a clear mandate, adequate resources, sufficient flexibility to make decisions, and were

accountable for results" if services were to be supplied effectively. The funds available from their own sources and those devolved should correspond to the tasks and obligations assigned. According to the results of another study, Panchayats must significantly expand their own revenue base in addition to relying on state government devolutions. The extent to which local governments were self-funding was also seen to be a sign of their financial independence because outside financing could come with restrictions on how the money can be used locally. Furthermore, grants shouldn't account for a disproportionate amount of local spending because, when finances were tight, payments to local governments were frequently stopped by higher-level governments. This made local governments less inclined to generate their own income. Additionally, local funds should be adaptable, transparent, and dependable.

The current paper analyses these problems. This paper's analysis shows two major categories of operational local self-government organisations in India. In the first section, the theory and notion of decentralisation and fiscal decentralisation are discussed conceptually. Fiscal decentralisation in general and decentralisation in India. The second section describes how fiscal decentralisation to local self-governing institutions is now progressing in India, as well as how much the PRIs have struggled with India's fiscal decentralisation. A list of policy proposals for boosting fiscal efficacy is provided in the last section. *How much the local self-government does manages the funds from the government and maintain the check on the balance of revenue and expenditure accounts in the balance sheet for the deficit whether in loss or profit receipts of the year?*

## OBJECTIVES

The objective of the above article is to evaluate the effectiveness of PRIs in Rajasthan in terms of receipts of expenditure and revenue. The major data are focused to evaluate the distribution of funds in the local areas of Udaipur. Also to evaluate the overall spending and the usage of the funds collected by different taxes. Also to find out the trend of the revenue and expenses of PRIs of Rajasthan and their district.

**DATABASE:-** Books, articles from eminent Indian journals, International journals, reports from the Examiner of Local Audit Reports of Rajasthan Panchayats,<sup>1</sup> reports from the State

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<sup>1</sup> <https://cag.gov.in/ag2/rajasthan/en/audit-report/details/46715>

Finance Commissions of Rajasthan and its district<sup>2</sup>, reports from the Central Finance Commission<sup>3</sup>.

### **TENTH FINANCE COMMISSION {TFC}**

Despite not having a statutory mandate to do so, the Tenth Finance Commission suggested a payout of Rs. 100 per person based on the rural population as of the 1971 Census. The total money the TFC suggested for transfer to the states for the purpose of devolution to the panchayats over four years (1996-2000) was Rs.3481 crores. Salary and pay were expressly not meant to be covered by the award. To avoid any disadvantage to those states that did well in population management, the 1971 Census was used instead of 1991 one.

### **STATE FINANCE COMMISSION {SFC}**

In the majority of the states, initial SFCs have been reported and second SFCs have been established. The second SFCs have also turned in their reports in several states. As of December 2003, out of 35 states (including the three newly created states of Jharkhand, Uttaranchal, and Chhattisgarh) and Union Territories (UTs)<sup>4</sup>, 292 had established SFCs, and 27 of those had submitted their reports, according to information provided on the Ministry of Rural Development website ([www.rural.nic.in](http://www.rural.nic.in)) (Appendix IV). The first SFC established in Bihar did not provide any reports, and the second SFC is now due to do so. SFC has only recently been established in Arunachal Pradesh and has not yet provided its report. In 27 states where the initial round of SFCs has been reported. Here is a summary of where the recommendations stand.

- Twenty states adopted their suggestions.
- Goa and Assam were only partially acknowledged as states.
- Manipur was approved with limitations, Delhi with adjustments, and the suggestions of the SFCs are currently being considered in Uttaranchal and Pondicherry.

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<sup>2</sup> <https://sfc.rajasthan.gov.in/>

<sup>3</sup> <https://www.panchayat.gov.in/en/web/ministry-of-panchayati-raj-2/central-finance-commissions-reports-related-to-rural-local-bodies-rlbs>

<sup>4</sup> Three states) were exempted from the ambit of the 73rd Constitutional Amendment where (Meghalaya, Mizoram, and Nagaland)

Chhattisgarh, one of the two other recently formed states, has followed the MP SFC's recommendations, while Jharkhand has yet to form its own SFC. The High Court's ongoing dispute is to blame for the delay.

The following discussion covers the SFCs' main suggestions.

#### A. ASSIGNING NEW TAXES

In general, the SFCs did not advise assigning new levies to the panchayats. Where applicable, SFCs advocated a home tax, as well as taxes on the usage of pumps, tractors, highway services, telephones, cable TV, and land revenue or land sales. It appears that a widespread belief that panchayats are unable to collect taxes is the reason why expanding their taxing authority is not advised (Rajaraman, 2002).

#### B. GRANTS

Including i) Rs 2.4 lakh crore for rural local bodies, (ii) Rs 1.2 lakh crore for urban local bodies, and (iii) Rs 70,051 crore for health funds through local governments, the total funding to local bodies would be Rs 4.36 lakh crore (a percentage of awards will be performance-linked). All three Panchayat tiers—village, block, and district—will be eligible to receive funding from local bodies. The following uses of the health grants will be made possible: i) converting rural sub-centers and primary healthcare centers (PHCs) into health and wellness centers (HWCs); (ii) assisting with the development of diagnostic infrastructure for primary healthcare activities; and (iii) assisting with the development of urban HWCs, sub-centers, PHCs, and public health units at the block level.<sup>5</sup>

#### ACCOUNTS AND AUDITING

The finances and audit at the panchayat level are another significant concern.

Currently, the Comptroller and Auditor General (C&AG) of India has authorized the accounting system used by the federal government and state governments in India. This is a consistent system used throughout the nation that groups all things under distinct headings with explicit codes. However, this system is solely intended for use by the federal and state governments. The ways that panchayat finances are maintained vary greatly amongst the states. It is frequently not a double-entry bookkeeping method. The EFC has made several

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<sup>5</sup> <https://prsindia.org/policy/report-summaries/report-15th-finance-commission-2021-26>

recommendations in this respect. These suggestions have been largely accepted by the Indian government.

Even though everyone agrees that a reliable and consistent system of maintaining accounts and their audits is necessary, suggestions that this is done under the supervision and control of the C&AG have raised questions because of the centralized control they will have over the entire process. Even if the states' and PRIs' approval is required, the C&AG's engagement can guarantee consistency in the states' accounting practices. While this is going on, a few states have added more documents to their budget that detail the grants given to the PRIs.

### **FINANCES OF PANCHYAT: IMPORTANT PROVISIONS IN RAJASTHAN**

The government has given the PRIs authority over 16 tasks.<sup>6</sup>

The Rajasthan Panchayat Raj Act of 1994 gives PRIs in the state a variety of financial rights. The provisions of the statute relating to the taxes that the state's PRIs may impose are found in sections 65 to 69. The following table lists the different taxes that the panchayat bodies at all three levels may impose:

#### **Provisions of Taxes by the PRIs According to the Rajasthan Panchayat Raj Act 1994<sup>7</sup>**

GRAM PANCHAYAT	PANCHAYAT SAMITI	ZILA PARISHAD
<ul style="list-style-type: none"> <li>• Property tax</li> <li>• Octroi on products and animals.</li> <li>• Vehicle tax, excluding those used for agriculture.</li> <li>• The pilgrimage tax, or the charge for procuring water.</li> <li>• Taxes on commercial products (such as</li> </ul>	<ul style="list-style-type: none"> <li>• Tax on trades, callings, professions, and industries as may be prescribed.</li> <li>• Tax on the rent due for the use or occupation of agricultural land.</li> <li>• The end of primary education.</li> </ul>	<ul style="list-style-type: none"> <li>• The cost of a fair or male's license.</li> <li>• Water rate, where the Zila Parishad supplies water for agriculture or consumption.</li> <li>• An additional 5%-6% stamp duty surcharge for rural property sales.</li> </ul>

<sup>6</sup> <https://financialservices.gov.in/>

<sup>7</sup> Latest amended

<p>ground nuts, cotton, sugarcane, maize, and chilies) and a special tax on adult members who participate in public works projects.</p> <ul style="list-style-type: none"> <li>• License costs</li> </ul>	<ul style="list-style-type: none"> <li>• Panchayat Samiti holds events.</li> </ul>	<ul style="list-style-type: none"> <li>• A surcharge on the market fee of up to 0.5 percent.</li> </ul>
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Source: 15<sup>th</sup> State Finance Commission Report, 2021-2026<sup>8</sup>

The Secretary Mandi Committee is responsible for recovering the surcharge on agricultural products. Despite this, the state's Second State Finance Commission noted that "the PRIs have not utilized their powers of taxation and recovering non-tax revenues to the desirable extent due to their proximity to the voters, as well as due to the fact that imposition of taxes and recovery of fees for the services rendered is not obligatory under the Rajasthan Panchayati Raj Act/Rules." The commission has also given instances of the Sub-Registrar and Secretary, Mandi Committees, and agricultural produce surcharges that certain Zila Parishads have enacted but have not yet implemented. The Sub-Registrar and Secretary of the Mandi Committees have requested instructions in this regard from their respective departments, the Panchayati Raj Department also informed the Commission. The second SFC suggests using the Finance Department's intervention to resolve this peculiar situation at the state level.

The boundaries, rates, and procedures for tax collection are outlined in the Panchayat Raj Rules, 1996. At the Gram Panchayat level, the records of demand recovery and tax balance must be kept up to date by the patwari (the employee who manages land records and collects land income). As collecting fees, the patwari is compensated with 5%. For properties transferred in rural regions, a surcharge on stamp duty must be collected by the sub-registrar and remitted to the Zila Parishad.

## RECENT DEVELOPMENT

Following the Chief Secretary's directive, the state government's ministries released notifications that let the PRIs more easily carry out the 16 tasks that have so far been delegated to them. These orders contain the following crucial clauses:

<sup>8</sup> [https://finance.cg.gov.in/state\\_finance\\_commission/SSFC/Reports/English/Chapter\\_1.pdf](https://finance.cg.gov.in/state_finance_commission/SSFC/Reports/English/Chapter_1.pdf)

- a. The Zila Parishads and the DRDAs have been combined.
- b. The Branch of Panchayati Raj and the Department of Rural Development has been combined into one department.
- c. Pris has been granted complete freedom to manage their finances.<sup>9</sup>
- d. Prs will be granted rights to all minor forest product (MFP) and non-forest land-based feed revenues. However, the state government would pay the money from the trend leaves to the PRIs after subtracting the administrative expenses.
- e. The budget is also being utilized for the training of the panchayat in administrative work.

The order, issued by the Department of Panchayati Raj based on the report of a subcommittee of ministers, contains the aforementioned provisions. The decentralization process greatly benefits from these measures. The second SFC also advocated for the union of DRDAs and Zila Parshas. The little forest produces revenue that will increase the amount of money in the revenue of the panchayats.

Therefore, the state government's decision to move the money from MFPs to the PRIs is a very beneficial step. The order issued by the forest department, however, omits this information and only directs the transfer of the JFM's social forestry program to the PRIs.

## **BUDGET ANALYSIS AT PANCHAYAT LEVEL**

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The previous paragraph discussed the financial assistance provided by the state to the panchayats. For the budget analysis of the PRIs, we obtained the budget documents which have the annual report of annual financial statements from the state's elected PRIs. The budget analysis of the selected PRIs is presented in the following methodology, data collection, etc.

### **A. METHODOLOGY**

The Zila Parishads (ZPs) in Udaipur and Jodhpur. The choice of Zila Parishads in Rajasthan was influenced by the presence of the partner organizations (district panchayats). Astha and its partners in Udaipur and UNNATI in Jodhpur provided assistance with the identification of the panchayats and the data collection. Two Gram Panchayats (GPs) and two Panchayat Samitis (PSs) were chosen for each ZP.

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<sup>9</sup> <https://zilaparishad.rajasthan.gov.in/content/raj/zilaparishad/en/home.html#>



## B. DATA COLLECTION

Data that is both quantitative and qualitative has been gathered. The last three years' budget records from all three levels of the chosen PRIs have been sought after. Using a prepared questionnaire, interviews with the leaders of the PRIs and the government official aiding them were conducted. Focus group discussions (FGDs) were also held to elicit the opinions of the public.

## C. BUDGET DOCUMENTS

Since PRIs in Rajasthan don't create an annual budget, we've utilized their annual financial statements (AFSs) for our research. Some PRIs created a budget that included simply their income and the salaries of the staff members they employed. There is no consistent trend among the AFSs gathered from the PRIs in Rajasthan. The earnings and expenses are broken down by various headings in the accounts of the Udaipur Zila Parishad and Panchayat Samiti Badgaon (Udaipur). There are several subheads (or items) under each major heading, but few figures are provided. Although the sub-heads are not grouped by the major head, the Zila Parishad Jodhpur and Panchayat Samitis Jhadol (Udaipur), and Mandor (Jodhpur) present the earnings and expenditures that way. Only two GPs' AFSs exist at the Gram Panchayat level: Nanda Kalan and Banad from Mandor.

## CONCLUSION

The money provided to the panchayats is the budget by the state finance commission. They entertain the money with the usage in the different problems in the local bodies. They also manage their revenue accounts by the taxes implied on the properties and other subject matters. Transferring a sizable sum of money won't improve these organizations' capacity to act as responsible self-governing entities unless they are given the freedom to allocate the money according to the perceived needs of the people they are meant to help. The Constitution being quasi-federal the PRIs should be made independent, this will make them work in the most efficient way. Therefore, PRIs' ability to generate their resources successfully as well as the establishment of an omission and commission-free democratic system at the grassroots level were key factors in their long-term sustainability. This would only become a reality if appropriate service delivery mechanisms, such as rural development, were properly implemented and provided at the grassroots level.