

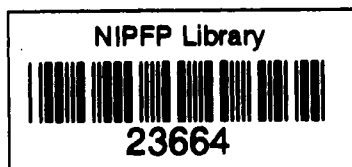
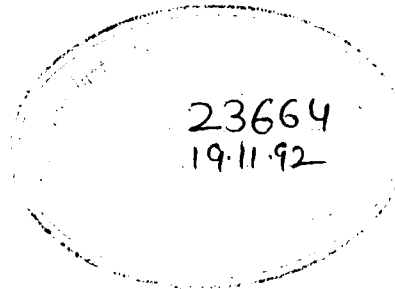


**PLANNING THROUGH PANCHAYATI RAJ
INSTITUTIONS: THRUST TOWARDS
RESOURCE MOBILISATION**

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PLANNING THROUGH PANCHAYATI RAJ INSTITUTIONS:

THRUST TOWARDS RESOURCE MOBILISATION

The 64th Constitutional Amendment Bill¹ introduced in the Lok Sabha to provide constitutional status to Panchayati Raj institutions (PRIs) has once more brought to the fore the structural weaknesses of the overall system. It has provided us with yet another opportunity to examine the inadequacies of the concept and the potential of PRIs in our economic-political system. In the light of the approach of the Constitutional Amendment Bill, this paper in its first part examines the issues related to decentralised planning with reference to PRIs. The second part analyses the process of planning through PRIs and suggests that decentralised planning is still at its infancy. The third part examines the setting of the PRIs in

Reproduced from Hooja, Rakesh and P.C. Mathur (eds.) (1991) District and Decentralized Planning, Jaipur, Rawat Publications.

1. Government of India, the Constitution (Sixty-Fourth) Amendment Bill, 1989; as passed by Lok Sabha on August 10, 1990.

the federal structure and presents the objectives of tax policy for them. It further suggests the desired devolution of taxes to PRIs in the form of tax-assignment, tax-sharing and tax-distribution. For fulfilling the gap in resources, it suggests grans-in-aid. Finally, the part IV presents conclusion of the paper.

I

CONCEPT OF PRIs

The framers of the Constitution have included PRIs in the Directive Principles of State Policy. The Article 40 states that the State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.² In 1957, the Balwantrai Mehta Committee, for the first time, recommended introduction of PRIs. The Committee opined that PRIs establish a linkage between local leadership enjoying confidence of local people and the government, and translate the policies of the government into action.³ The government has since then appointed many Committees to proceed further in this

2. Government of India, The Constitution of India, New Delhi, Part IV, p.15.

3. Planning Commission, Report of the Committee on Plan Projects, Government of India, New Delhi, 1959.

direction. Some high-powered committees have been set up. These include (i) National Committee on Panchayati Raj Institutions, 1978⁴; (ii) Working Group on Block Level Planning 1978⁵; and (iii) Working Group on District Planning, 1984.⁶ With further emphasis on anti-poverty programmes another Committee was appointed to review the existing administrative arrangements for rural development and poverty alleviation programmes.⁷ Recently, a draft concept paper on PRIs has been brought out by the Singhvi Committee⁸.

A review of events over the years suggests that there has been some change in the concept of PRIs. Starting originally as a very narrow concept, it has expanded to cover some areas of rural development as well as economic planning. However, in practice, decentralised planning has not gone too far mainly due to various limitations faced by it. First, the concept in practice is so far not expanded to cover requisite aspects. The main weakness is the failure to realise the importance of village initiative.

4. Ministry of Agriculture and Irrigation, Department of Rural Development, Report of the Committee on Panchayati Raj Institutions, Government of India, New Delhi, 1978. (Chairman: Ashok Mehta).

5. Government of India, Report of the Working Group on Block Level Planning, New Delhi, 1978, (Chairman: M.L. Dantwala).

6. Planning Commission, Report of the Working Group on District Planning, Vol. I and II, Government of India, New Delhi, 1984 (Chairman : C.H. Hanumanth Rao).

7. Department of Rural Development, Ministry of Agriculture, Report of the Committee to Review the Existing Administrative Arrangements for Rural Development and Poverty Alleviation Programmes, (CAARD), Government of India, New Delhi, 1985 (Chairman : G.V.K. Rao).

8. Department of Rural Development, Ministry of Agriculture, Government of India, Draft Concept Paper on Revitalisation of Panchayati Raj Institutions, New Delhi, 1986.

As reported in the Plan Document, it was necessary to have an agency in the village which represents the community as a whole and can assume responsibility and initiative for developing the resources of the village and providing the necessary leadership. Indeed, rural progress depends entirely on the existence of an active organisation in the village which can bring all the people including the weaker sections mentioned above into common programmes to be carved out with the assistance of the administration.⁹ In addition to the above conceptual problem, PRIs are in fact not viewed as bodies which can play an important role in the overall development of rural areas. Secondly, there is no much clarity about the inter-relationship between PR bodies and development administration. Thirdly, there is considerable confusion about the role of PRIs in rural development programmes with special reference to the weaker sections. And finally, there is no clear trend emerging in the context of decentralised planning.

In spite of these limitations, the PRIs have come to stay. Today, as given below, about 13 States have three-tier PRIs, 4 have two-tier system; 5 States have one-tier system; and another 3 States have traditional councils of village elders. It is argued that PRIs have been very successful in some of the States like Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Rajasthan. Nevertheless, the general picture that emerges from the experience of different States suggests that PRIs do not benefit weaker section; this group is neither fully

9. *Ibid*, Para 3.4.

PRIs in Indian States
(1988-89)

States/UTs having traditional council of village elders	States/UTs having only one-tier system	States/UTs having two-tier system	States/UTs having three-tier system
Meghalaya	Goa	Assam	Andhra Pradesh
Mizoram	Jammu & Kashmir	Haryana	Arunachal Pradesh
Nagaland	Kerala	Manipur	Bihar
Lakshadweep	Sikkim	Orissa	Gujarat
	Tripura		Himachal Pradesh
	Andaman & Nicobar Islands		Karnataka
	Dadra & Nagar Haveli		Madhya Pradesh
	Daman & Diu		Maharashtra
	Delhi		Punjab
	Pondicherry (only at Block level)		Rajasthan
			Tamil Nadu
			Uttar Pradesh
			West Bengal
			Chandigarh

Source: Department of Rural Development Ministry of Agriculture, Panchayat Raj at Glance: Status of Panchayati Raj Institutions in India 1988-89, New Delhi, July 1989.

aware of the functioning of PRIs nor is able to participate in their activities. It is working mainly for the elite or the rich.

II

PLANNING THROUGH PRIs

It is well recognised that the planning process has scarcely used the PRIs ; most of the processes have in fact been imposed from the above. On the top of this the centrally planned and sponsored schemes have successfully ignored the PRIs; they have reduced the responsibility and the initiative of the State governments. The matter of fact remains that although in 1970s it was decided by the NDC tht the value of such schemes would be limited to 15 per cent of the total plan assistance over the years the proportion has increased and in 1987-88 it was about 53 per cent of all the State plan scheme.¹⁰ It is, therefore, important that these schemes should be kept to the minimum and the process of decentralisation in plan formulation be pursued seriously.¹¹

So far no attempts have been made towards decentralised planning. This was clearly highlighted by Dantwala Committee when it observed that the key projects and supporting subsidiary projects that are identified in

10. For Karnataka the proportion was 103 per cent. See Government of Karnakata, Centrally Sponsored Schemes: An Instrument for Centralisation in Planning, Bangalore, 1988.

11. Sarkaria Commission has also come to similar conclusion.

the area in the productive sectors have a generative role and will be concentrated in a few specific locations which may be called rural growth centres. The Committee further referred to the existence of "certain other linked activities which have to be undertaken as a part of a larger resource development programme cutting across block boundaries".¹² Therefore, the planning through PRIs has to have inter-linking of different tiers of planning rather than giving attention only to the lower tiers. This is obvious from the fact that as one moves down the lower tiers of planning, due to open systems and linkages, it is difficult to plan in isolation. If the linkages are to be covered adequately we have to move up the tiers to reach a feasible level.

Such linkages are highlighted in other studies too. It is said that the sectoral plans at the block level face the constraints of short projection periods, almost exclusive reliance on judgements and guess-work and inability to build up intersectoral perspectives. The block is found to be too small an area for adequate planning of growth centres. The situation is no better at the district level as the district plans prepared in some of the States have been mechanically put together the projects prepared by large number of departments with neither sectoral nor spatial integration.¹³ Unless the planning through PRIs is attempted to increase the overall growth rate in the economy and to give a thrust to rural growth by stimulating

12. Government of India, Report of the Working Group on Block Level Planning, Planning Commission, New Delhi, 1978.

13. Prodipto Roy, and Patil, B.R., Manual for Block Level Planning, Macmillan, Delhi, 1977.

secondary activities in addition to agriculture, the impact of decentralised planning is likely to remain unimportant to bring about structural changes in the economy.

In this context it is important to examine the proposed role of the collector or the district magistrate (DM). In 1987 and 1988 the then Prime Minister, Mr Rajiv Gandhi held a series of five workshops of DMs on the theme of 'responsive administration'. In July 1988, these views were further analysed by the Chief Secretaries of the States and the Secretaries to the Government of India. The report containing these views recommends that a unified representative body - the Zilla Parishad (ZP) - be in charge of planning, execution and monitoring at the district level. It brings in DM as Chief Executive Officer of the ZP. However, he continues to be the district boss in charge of revenue and law and order. That is to say both the developmental and the regulatory functions will be concentrated in the DM. In giving such a pride place to the DM, the democratic institution of ZP has really been ignored.

Further, against the spirit of decentralisation, the attempt of the Government has been to set up the 'National Informatics Centre' at Delhi for collection of data at the district level. The attempt is to place an officer of the centre in every district to collect and computerise at the district level. The district computer terminals will reportedly be manned by NIC and not by the staff of the

State governments. The information so gathered will be used for preparation of 'model' district plan, by passing the States and obviously ignoring the districts.

In the light of the above developments, let us examine the proposed Constitutional Amendment Bill. The main provisions of the Bill could be summarised as follows:

- i) There would be a three-tier PRI. This would include panchayat at village, intermediate and district levels. Small States with population less than 20 lakh may not have the intermediate tier;
- ii) PRIs would have regular mandatory election every five years under the control and supervision of the Chief Election Commissioner. Any dismissed PRI must be reconstituted through a proper election within six months;
- iii) All seats in the PRIs will be through direct elections. The office bearers would be from the directly elected members only. State legislatures may appoint MPs, MLAs and others on PRIs for their representation in the panchayats;
- iv) 30 per cent of seats in PRIs will be reserved for women. Reservation of seats for SC/ST will be in proportion to their population;
- v) PRIs will receive their finances from State Governments (in the form of grants). They would also be empowered to collect revenue by imposing taxes,

duties, tolls and fees on the commodities falling within their purview. State finance commission will review the finances of PRIs every five years;

- vi) PRIs will prepare plans for economic development, social justice and social welfare of their population as per the given guidelines. The plans will be later on incorporated in the State Plans; and
- vii) Strict accounting procedures will be laid down to control corruption and misuse of funds by PRIs. Comptroller and Auditor General of India will supervise the accounts.

The above provisions are in many respects similar to the Draft Constitution Amendment bill formulated by 21 eminent citizens and included in the Ashok Mehta Committee (1978).¹⁴ There does not seem to be any difference in powers, responsibilities, the manner of elections and also in accounts and audit. However, the crucial question is whether the bill supports decentralisation of power? Let us examine the issues in seriatum: First, the bill has taken PRIs out of the State List and put it under the Concurrent List to enable the Centre to pass legislation in this area. Secondly, the provision of holding elections of PRIs under the supervision of the Chief Election Commissioner and not under State government once again gives more powers to the Centre. Thirdly, the provision of

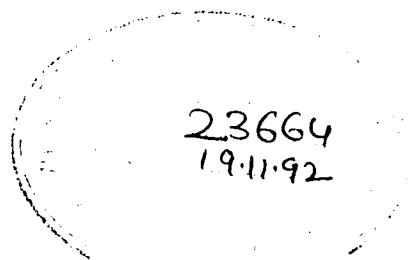
14. Government of India, Report of the Committee on Panchayati Raj Institutions, op. cit., Annexure 2, Para III.6.

providing finances to PRIs through the Finance Commission and not through the State government also reduces the power of States.¹⁵ Fourthly, the power of dismissing PRIs vests with governors. And finally, the provision of reservation without consulting States is another encroachment on powers of State governments. Thus, looking into all the relevant aspects, it seems that the proposed bill does not decentralise the power. An important aspect concerning the development of the PRIs relates to pre-conditions for their success in the Indian conditions. It has been pointed out by many scholars that PRIs need a number of essential conditions which are still lacking.¹⁶ An important question, therefore, is whether the bill has identified these constraints and attacked them?

An examination of all the aspects suggests that the proposed amendment touches upon only a part of the pre-conditions. For example, the first important pre-condition is evolving a comprehensive concept of PRIs. It has to bring out decentralisation of administrative and political power in the sense that it has to encourage self governance and mass participation in its working. Secondly, it is important to strengthen the poor so as to protect them from the exploitative behaviour of the rich or

15. A new scheme - Jawahar Rozgar Yojana - has just been started. For this scheme the funds are sent directly to the DMs or Chief Secretaries of ZP and not via the State government. The guidelines for the scheme include who the beneficiaries should be, how they should be identified, the mode of implementation and so on thus ensuring centralisation and the rigidity that goes with it.

16. Raj, K.N., Some Thoughts on Decentralisation of Development Planning and Implementation, Institute for Social and Economic Change, Bangalore, 1984; Mirawar, Indira, "Panchayati Raj at Cross Roads", Economic and Political Weekly, July 22, 1989, pp. 1663-1667; Rao, V.N., "Decentralised Planning - Priority Economic Issues", Economic and Political Weekly, July 24, 1989, pp. 1399-1405.



the elite. Thirdly, the success of the PRIs depends upon training the members of PRIs for their new role. And finally, it is important to prepare development administration for PRIs. The above pre-conditions have so far not been attempted to be fulfilled. In fact, there is no evidence to suggest that government is evolving a comprehensive concept of PRIs encompassing economic and political dimensions. Also, there is no attempt to even take notice of the highly exploitative power structure in our rural areas.

III

THRUST TOWARDS MOBILISING RESOURCES

It is now well recognised that decentralisation of functions without transferring financial resources to the PRIs has no specific meaning. In fact, for an effective decentralisation of planning it is as necessary to transfer functions and powers to PRIs as simultaneously transferring required revenue sources to meet their demand.

As of today, taking all States together, the PRIs are empowered to levy a large number of small-base taxes. These include: House Tax, Profession Tax, Vehicles Tax, Tax on Fairs, Tax on agricultural land, Pilgrim Tax, Tax on Festivals and Entertainments, Tax on Cattle, Tax on Property, Tax on Commercial Crops, Sanitary Tax, Drainage Tax, Lighting Tax, Water Tax, Tax on Fisheries, Chula tax, etc.¹⁷ But many of the PRIs do not use their tax powers.

17. Report of the Committee on PRIs, op. cit., p.103.

Accordingly, the proportion of tax revenue of PRIs to their total revenue is not significant. This proportion varies from one State to another and does not show growth in revenue over a period of time, and hence not relevant for any policy conclusions across the States.¹⁸

It could have been, therefore, a path-breaking attempt to earmark some elastic taxes to PRIs through the Constitutional Amendment Bill. Unfortunately, the Bill has not directed itself to this problem. The Bill states that: "The Legislature of a State may, by law

- (a) authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedures and subject to such limits;
- (b) 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;
- (c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State ; and
- (d) provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys therefrom, as may be specified in the law.¹⁹

18. *Ibid*, Chapter II.

These provisions are not at all specific in transferring tax resources to the PRIs. It is, therefore, important that we specify certain taxes to be assigned to the PRIs.

While assigning tax powers to PRIs, we have to consider a specific setting in view. First, the tax system of PRIs is a sub-set of the overall tax system of the federal system. Hence, the system of PRIs is largely restricted to the overall powers given to the States under the Constitution. Second, there are significant differences between building a local tax system and guiding the overall federal-State tax policy. In the local tax system, we have to keep in view the possibilities of diversion of trade and investment from region of one PRI to another. Finally, there are a number of common principles such as equity and administrative expediency that the sub-set must follow along with the federal system.

Keeping in view the above specific setting, while devolving taxes, we could keep the following objective criteria in mind:

- (a) Fiscal Autonomy: The most important objective of tax policy in designing a viable system of financing PRIs is that of fiscal autonomy. This implies that the tax revenue of PRIs (both assigned and shared taxes) should amount to at least half of their total

19. The Constitution (Sixty-Fourth Amendment) Bill, 1989, Section 243F, p.4.

receipts. This would limit the State-fiscal transfers (grants) to not more than half of their total budget.

- (b) Growth Objective: The assigned and shared taxes should be such that the yield from these taxes is able to raise resources for the development of the areas of PRIs. Accordingly, it must have some taxes that could be income-elastic.
- (c) Co-ordination: The tax policy of PRIs should follow the objective of overall federal tax policy and should be in consonance, in essential respects, with the structures prevailing in the neighbouring PRIs.

With the above objectives in view, we present below the structure that could be useful for financing PRIs in the country.

- (a) Assignment of Taxes: With a view to giving fiscal autonomy to PRIs, it is important that we assign some of the buoyant and income elastic sources to the PRIs. One such source is property tax. Most of the PRIs whether at lower, intermediate or higher levels have used this source. When properly levied, this could be an elastic source of revenue, provided valuation of property is not left at the discretion of PRIs. For this purpose, it is proposed that an appropriate valuation organisation be created by the State government to suggest modifications in tax base and to provide guidelines in property valuation and appoint valuers to undertake periodic valuation of property in all

areas of PRIs. This would avoid arbitrariness in the determination of rental value of the property both in the rural and urban areas. However, it is important that the variation in tax rates among the jurisdiction of different PRIs is avoided. In this connection we could follow the pattern of Municipal Acts of the States wherein (lower and upper) ceiling rates are prescribed by the State Government. This prescription of tax rates would make the PRIs to levy at least the minimum rate of tax. Also, even the maximum rate would not cause any diversion of property from one area to another.

(b) Sharing of Taxes: It is important that PRIs are given a share in some of the State taxes having local base for their collection. For example, it is desirable that PRIs get a share in land revenue, surcharge on land revenue, cess on land revenue and agricultural income tax. All these taxes are related and have land and income as their base. The State must share these taxes in some proportion to be decided by the State Finance Commission.

(c) Distribution of Taxes: Some specific taxes such as surcharge on sales tax, on the pattern of Tamilnadu Sales Tax²⁰, could be given to PRIs for distributing total yield among them. In Tamilnadu, surcharge on sales tax is levied in limited urban and sub-urban areas for the use by the local bodies. This could be extended to whole of the State and the yield could be distributed to PRIs for their use.

²⁰ For details of the structure of surcharge and additional sales taxes in different States see Purohit, Mahesh C., Structure and Administration of Sales Taxation in India, Reliance Publishing House, New Delhi, 1988, pp.80-81

In fact, most of the States are levying surcharge or additional sales tax for various purposes. This could be earmarked for PRIs.

(d) Grant-in-Aid: The Central government through the State and in turn the States from their own funds, should earmark grants-in-aid for PRIs to enable them to formulate plans for the local areas. The States should distribute the revenue to PRIs after creating some appropriate distribution criteria among them. In fact the overall distribution among the urban and rural local institutions has to be viewed as a whole. These grants-in-aid should be made a constitutional obligation and be decided by the State Finance Commission - a body that could be appointed periodically by the State governments.

IV

CONCLUSION

Mahatma Gandhi was instrumental in getting PRIs incorporated in Article 40 of the Constitution. It was expected that the Government would slowly broaden the concept to establish a linkage between local leadership and the government and translate the policies into action through the involvement of the public. Several Committees have been appointed. Many of them have given concrete suggestions to improve the overall system. Hence, over the years, there has been some change in the concept but it is still a very narrow concept. Hence, the PRIs have not played an important role in the overall development of our

rural areas and the decentralised planning has remained a non-starter. Various causes of failure of the system include structural inadequacies, constraints in socio-economic and political structure of the rural society, and the beaurocratic role of the officials in the rural areas.

The proposed Constitutional Amendment Bill, when viewed in this background, has not been a wholehearted approach. It is not going to be a step towards decentralisation.

It is extremely important that the PRIs are viewed in overall setting of the federal struture. Hence, while assigning the tax powers to PRIs we must keep in mind the objective criteria of (a) Fiscal Autonomy, (b) Growth, and (c) Co-ordination. With these objectives in mind, the devolution of resources should be attempted to have assignment of taxes (property tax with a State valuation unit); sharing of taxes (land revenue, surcharges, and cess including agricultural income tax); distribution of taxes (surcharge and additional sales taxes); and grants-in-aid (with State Finance Commission). With the above changes it is hoped that the PRIs would be able to play an important role in the socio-economic and political set-up of the country.

[PANCHRAJ.MCP/Shikhar]

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