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## DIFFERENT FINANCIAL ISSUES OF PANCHAYATI RAJ INSTITUTIONS AND PROBLEMS THEREOF

<sup>1</sup>Dr. Rajneesh Dhagar, <sup>2</sup>Naresh Kumar and <sup>3</sup>Suresh Kumar

<sup>1</sup>TGT Arts Sahid Satish Kumar Govt. Sr. Sec. School Baragaon, Kumarsain, Distt.Shimla (H.P.)

<sup>2</sup>Lecturer in Political Science, Department of Higher Education Himachal Pradesh  
Govt. Sr. Sec. School Kathla, Tehsil Shri Naina Devi Ji, Distt. Bilaspur (HP).

<sup>3</sup>Lecturer in Political Science, Department of Higher Education Himachal Pradesh  
Govt Sr Sec. School Ghagus, Tehsil Sadar, District Bilaspur (H.P).

### Abstract:-

With the advent of independence, the Government of free India came to face with innumerable problems, the most difficult of which were abject poverty, massive illiteracy and an utterly poor economic base in rural India. It was a gigantic task for the government to plan for the socio-economic growth, to lessen the incidence of poverty and create condition for development of the rural communities as initiated in the constitution of free India. The success of development programme depends upon the will of the political and administrative elite to decentralize real powers at the grass roots level. The choice in the matters is the very sharp in view of the disintegration of the fabric of the India society. Either decentralize or perish without decentralization there is neither going to democracy nor economic development. The Panchayati Raj System can be viewed from two dimensions, i.e. economic and political. Since the inception of PRI's there has been political decent realization through devolution of powers, primarily to carry out development programs at the grass-root level. But economic decentralization has not taken place in the true sense, because most of the rural development programs are being carried out as centrally sponsored schemes.<sup>1</sup>

**Keywords -:** Decentralisation , Gram Sabha, 73rd Amendment , MANREGA, Panchayat Raj ,

73<sup>rd</sup> Constitutional Amendment Act, 1992 made considerable provisions to address the issue of economics decentralization and to settle much of the financial problems of the PRI's relating to mobilization of resources, management of resources, their proper utilization and to check their misuse. The HPPR Act, 1994 has also incorporated the provisions contained in the constitution so as to address the financial problems of the PRI's and to ensure economic decentralization and development. Some of the important provisions relating to different financial issues such as mobilization of resources, management of resources, utilization of resources and to check their misuse contained in the HPPRI Act, 1994 are as following-<sup>2</sup>

Section 7(4) Provides that :-

The Gram Sabha may also from one or more vigilance committee (s) consisting of not less than five persons, who are not members of the Gram Panchayats. To supervise the Gram Panchayats works, schemes and other activities.

Sections 23, 84 and 95 :-

These Sections contains provisions respectively to consti for Gram Panchayat, Panchayat Samiti and Zila Parishad to constitute, works. Budget, Finance, Audit, Planning, Social Justice and other related standing committees so as to carryout various works, prepare budgets, preparing propagates for increasing revenue, scrutinizing financial statements and carry out supervision over the revenue and expenditure of the PRI's.

<sup>1</sup> S.L. Goel. 'Public Financial Administration', Deep and Deep Publication Pvt. Ltd., New Delhi, 2008, pp. 509511.

<sup>2</sup> The Himachal Pradesh Panchayati Raj Act, 1994 (Act No. 4 of 1994) Government of Himachal Pradesh Rural Development and Panchayati Raj Department, Shimla, pp. 7,14,36-41, 50.



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Section 98 :-

This section provides for the SFC, so as to determine the principles which shall govern the distribution of revenue between the state and the Panchayats, determination of taxes, duties etc. which may be assigned to or appropriated by the Panchayats, the grants-in-aid from the consolidated fund of the state and the measures needed to improve the financial position of the Panchayats.

Section 99(1) Provides that :-

Every Panchayats shall establish a fund to be called Panchayat fund and all sums received by the Panchayats, shall from part of the said fund.

Section 105 Provides that :-

The State Government may make rules to regulate the imposition, assessment, collection and sharing of taxes under this Act.

Section 107 Provides that :-

The State Government may assign to be a Panchayat such taxes, tolls and fees levied and collected by the State Government and may make grants-in-aid from the consolidated find of the state for such purposes and subject to such conditions and limits as the State Government may deem it.

Section 110 Provides that :-

Subject to such rules as may be made in this behalf and restriction contained in any law for the time being in force relating to raising of loans by local authorities a Panchayat may, with the provides sanction of the State Government raise a loan for carrying out the purpose of this Act.

Section 117(1) Provides that :-

Every Panchayat shall prepare annually in such form and in such manner and by such date, as may be prescribed budget estimate, of its receipts and expenditure for the next financial fear.

Section 117(3) Provides that :-

The annual accounts and report of administration by Panchapats shall be presented to the prescribed authority in the prescribed manner.

Section 118 (1) Provides that :-

There shall be a reparate and independent audit agency under the control of the Director to perform audit of accounts of Panchayats.

Section 118(3) Provides that :-

The manner of audit of Panchayat accounts, payment of audit fees and action on such reports shall be such as may be prescribed.

Section 140 Provides that :-

Powers of State Government to dissolve Panchayats for default, abuse of power etc.

So these are some of the important provisions relating to the different financial issues such as allocations, resource mobilization, management and utilization of financial resources and to check their use and misuse by the PRIs. In order to address the various financial issues and the problems being faced with regard to them the investigations carried out are being presented and analyzed in this research paper. <sup>3</sup>

The funds to the PRIs flow from the several sources. They get funds under Centre Government sponsored schemes and plans, grants-in-aid are given by the State Government, MPs and MLAs also provide funds to them from their local area development funds. PRIs also raise funds locally through taxes, tolls, fees, cess etc. as per powers given to them and the provisions are also there for them to secure loans for undertaking various development activities. PRIs in the state are totally dependent upon the government for their finances. Since major developmental plans and schemes are being sponsored by the Centre Government as such. PRIs are getting a big amount of their finances from the Centre Government

<sup>3</sup> R.S. Chaudhary, "A Study of Panchayat Raj in Himachal Pradesh", Journal of Administratiion Overseas, April, 1978, pp. 75-78, 80-84, 101, 103, 107.



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and the State Government is also providing a good amount out of its seven..... to PRIs but PRIs are yet to generate a sizable revenue at the local level bonce PRIs are facing the problem of financial dependence in the absence of their own resources. This fact is also provide from the budget provisions and expenditure of the Panchayati Raj Department from the year 2000-01 to 200506. Wherein all the committed liabilities of the PRIs have been financed by the State. As per developmental policies framed time to time by the Centre and the State Government, various schemes are implemented through the PRIs for which the funds are also provided by the Centre or the State Government. Though the basic objectives of the government policies are to ensure socio-economic development of the rural are let the schemes implemented may not be suitable to all the PRIs. Sometimes the schemes devised, particularly by the Centre Government for the socio-economic development of the rural area, may not be meeting the developmental needs and problems are not similar in all the territories in India. <sup>4</sup>

All the government sponsored schemes are not suitable to meet the local developmental needs as demands differ from place to place and these cannot be generalized in some specified schemes and plans. The Centre Government sponsored schemes devised for the entire nation bearing varied socio-economic and geographical features can never meet the developmental requirements throughout the country hence the government sponsored schemes lack in addressing the local developmental needs of the PRIs.

From time to time centre as well as State Government initiates various developmental schemes through PRIs to provide boost to the developmental activities of the rural institutions. Schemes for rural health, housing sanitation, roads and development of basic infrastructure are being evolved and implemental from time to time. Of late the most prominent scheme initiated for providing employment opportunities to the rural people at their door step is NREGA which has been rechristened as MNREGA. MNREGA is centre sponsored and it provides lot of money to the PRIs to guarantee minimum 100 days employment opportunities to unemployment rural people at their at their doorsteps. On the other hand out of the funds made available under the MNREGA all need based activities for the development of local areas are being undertaken giving a great boost to local development initiatives. Wide ranges of activities have been brought under the preview of MNREGA for which these funds can be used. But though MNERGA is the most viable scheme of the Centre Government to provide employment opportunities to the rural people at their door-steps and Panchayats have also got a great boost

4 Ramesh Chauhan, “Himachal Pradesh : A Prospects Shimla”, Minerva Book House, 1998, pp. 35494, 51, 68,

70. In their developmental efforts due to flow of funds under the scheme yet the availability of timely grants and misuse of funds is a cause of great concern for all. <sup>4</sup>

The government of India provides annual grants of Rs. 2 crore to each Member of Parliament which has been increased to Rs. 5 crore now for local area development and similarly the government of H.P. has also assigned annual grant of Rs. 20 lakh to each members of the Legislative Assembly under the local area developmental assistance. If the assistance out of MP/MLA’s local area development fund is received by the PRIs. They can undertake various need based local developmental activities to some extent and availability of funds can further ensure to address the financial problems of these institution to some extent. Financial problems of the PRIs. They can undertake various need based local developmental activities to some extent and availability of funds can further ensure to address the financial problems of these institution to some extent. Financial problems of the PRIs cannot be resolved completely unit PRIs create their own sources of regular income. Government grants cannot meet each and every requirement of the PRIs as the funds with the government are to be distributed among all the PRIs hence every institution may not be getting entire funding for meeting all its needs. As such creation of assets to generate regular income for the PRIs. PRIs have also been given some powers in this regard even to raise the loan under Section 110 of the HPPR Act, 1994, so as to create permanent source of income in their respective area way of building, shops, stores, community Centre’s and Panchyats can also use their vacant land for planting trees or creating orchards etc. But some initiatives to create permanent source of income are being taken at the

<sup>4</sup> MNREGA Annual Report, 2007-08, Himachal Pradesh Rural Development Department, Shimla, pp. 1, 3, 5, 25, 28, 40, 47.



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Gram Panchayat’s level but these initiatives are tacking at the Panchayat Samitis and Zila Parishad level perhaps due to the reason that the upper two tiers are not having basic assets like vacant land ..... With them on which such assets may be created.<sup>5</sup>

PRIs are institutions of grassroots level democracy in which active participation of the local people is must for the success of these institutions. As per provisions of the Act, people should attend the meeting of the Gram Sabha, cooperate with the representatives in implementing various developmental schemes of the Panchayats, part up the proposals for local development. People should ensure that funds provided to PRIs are properly utilized and people themselves should support the activities of the PRIs physically as well as financially when needed PRIs can solve their various financial problems and emerge as financially viable institution only with the cooperation and support of the people. For the success of rural democratic institutions not only finances should be available to them, to undertake their responsibilities but should they also manage their finances efficiently and in the prescribed manner so that people have faith in these institutions and self on them for solving their problems. The HPPRI Act, 1994 under Section 99(1) provides for the maintenance of the Panchayat funds and accordingly for the management of finances of PRIs the detailed rules and regulations have also been framed. People’s representatives working with the PRIs should be well versed with the law, rules regulations and procedure of the financial management of their respective institutions so that funds are managed as per prescribed procedure and transactions are transparent.<sup>6</sup>

One of the important steps to improve the functioning of PRIs is the introduction of committee system in them. The HPPRI Act, 1994 under Section 23, 84 & 95 provide for the constitution and working of various standing committees relating to different aspects of the working of PRIs. One of the committee in the Gram Panchayats is meant for budget and other is for works, whereas in other two tiers standing committee are being constituted to look in the different aspects of these institutions including the finance, audit and planning. The purpose and function of the Budget, Finance, Audit and planning committee as prescribed under the Act are to frame budget, scrutinize proposals for increase of revenue, examination of receipts and expenditure statement, consideration and proposals effecting the finances of the institutions and general supervision of the revenue and expenditure of their respective institution.<sup>7</sup>

With the 73<sup>rd</sup> Constitutional Amendment Act, subsequent enactment of State PRI Act and further devolution of powers as per provisions of the Act, it is believed that enough provisions to raise the financial resources for the PRIs have been made which has further improved the financial position of the PRIs. In overall terms the financial status of PRIs is not very satisfactory. Panchayat Samitis and Zila Parishads are lacking provisions and powers to raise revenue through internal resources hence they are totally dependent upon the state even for their day to day activities. Flow of funds to Gram Panchayats has improved considerably hence their financial status is better in comparison to the system prevailing prior to 73<sup>rd</sup> Constitutional Amendment, however, upper two tiers lacks provisions, powers and internal resources for undertaking the development activities.<sup>8</sup>

### Conclusion

Poverty, illiteracy, poor economic base in rural India were the major problems facing India in the post independence era. To address these problems decentralization of powers and resources at the grassroots level was the institutional mechanism as provided in the constitution of India. Since the inception of PRIs political decentralization has taken place and the initiatives for economic decentralization and development are also meaningful especially after the 73<sup>rd</sup> Constitutional Amendment. How for the problems relating to mobilization of resources, management of resources, utilization of resources and to check their misuse, have been addressed in the new arrangement, this subject matter has been discussed in this research paper and the summary of findings and conclusions in the regard are being presented in the

<sup>5</sup> The Himachal Pradesh Panchayati Raj Act, 1994 (Act No. 4 of 1994) op.cit., pp. 40, 46, 50.

<sup>6</sup> Ibid, pp. 37-39.

<sup>7</sup> The Himachal Pradesh Panchayati Raj Act, (Amendment upto 2006), Government of Himachal Pradesh, Department of Panchayati Raj Shimla, pp. 21, 38, 84.

<sup>8</sup> B.P. Chandra, “Panchayati Raj-Power to People”, The Concept, March, 1995, p. 49.



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following pages. From the research study it emerges that majority of the elected representatives/respondents believed the Centre Government as the major source of funding to PRIs, however, the State Government is also providing a good amount out of its revenue to PRIs. Neither the Centre nor the State Government is providing any untied grants to PRIs for meeting the expenses on local developmental activities. From the responses it also emerged that criterion for allocation of grants is seldom observed and PRIs are discriminated on political grounds while allocating grants from the state. It also found MNREGA did not help much to meet the entire local development needs of the PRIs as the activities are specified in the scheme and also the grants in this scheme do not reaching time in most of the PRIs, yet the flow of funds under the scheme has certainly increased.

Majority of the rural institutions did not receive any grants from the local MLS/MPs under local area developmental assistance and the majority of the institutions in the absence of basic infrastructure have failed in creating assets of regular income. Majority of the institutions have no substantial local income. The study indicates that though the Panchayats can also secure loans for their projects but the facilities are being availed by very few Panchayats. Majority of the representatives denied getting the physical and financial support and assistance of the people hence PRIs are also facing the problems of active support and assistance of the people in their developmental activities. Majority of the representatives are not very aware about the laws, rules and regulation of financial management of their respective institutions.

The representatives also accepted that the financial irregularities in the transaction of their respective institution are these but majority of them are not aware of them it was also found that the audit of accounts is being carried out but not very regularly and audit has also pointed out financial irregularities. The office bearers have also not been trained in financial management of PRIs.

The majority of representatives accepted that the standing committee on budget, finance, audit and planning performing the assigned role of solve the financial of PRIs and raise resources for them to same extent but its full potentials are yet to be realized it was also found that irregularities have been reported in the quality of work in different developmental activities of the PRIs. Majority of the representatives accepted the woman office-..... are more ..... To commit financial irregularities due to ..... pressures. The Panchayat Samiti and Zila Parishad are totally depends upon the government grants-in-aid. Majority of the representatives are not satisfied at all with the financial improvement in the new system introduced as a consequence of 73<sup>rd</sup> Constitutional Amendment and they were also dissatisfied with the procedure of financial management and financial performance of the PRIs. Overall study shows that PRIs in the state are totally dependent upon the government for their finances. State is also providing funds to PRIs out at its revenue yet the major developmental plans and schemes are being sponsored by the Centre Government. PRIs yet to generate sizable revenue at the local level.

All the government sponsored schemes are not suitable to meet the local developmental needs as demands differ from place to place hence the government sponsored schemes lacking addressing the local developmental needs of the PRIs. The discretionary grants to PRIs are being politicized. MNREGA is the most viable scheme of the Centre Government which has not only ensured local employment opportunities but also boosted developmental efforts but the scheme is facing the problems at timely availability of funds. PRIs are also not getting financial assistance from the local MLA/MP's developments funds uniformly. Some initiatives to create permanent source of income have been taken at the Gram Panchayats level but these are lacking at the Panchayat Samitis and Zila Parishads level perhaps due to lack of basic assets like vacant land or other revenue generating assets. Gram Panchayats are raising some revenue at the local level, whereas upper the tiers have neither powers nor raising resources locally hence they have very little income of their own rather they are dependent upon the state grants. Very few Panchayats are availing loan facilities for carrying out the purposes of the Act and to create local income generating assets hence the due benefits are not being derived out of the available provisions. People's physical and financial support and assistance in development efforts of the PRIs is also not very comprehensive and wide rather they support the activities in which they are direct beneficiaries hence PRIs are facing the problems of active support and assistance of the people in their developmental activities. In the absence of proper knowledge and training of the representatives in the financial management of PRIs they are facing the problems of



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financial irregularities. Though the check of audit of accounts on the PRIs is there yet the system is not regular leading to the problems of financial irregularities.

The standing committee on budget, finance, audit and planning in the PRIs is contributing a lot to solve the financial problems of the PRIs yet its full potentialities are yet to be realized. PRIs are also facing the problems of maintaining the quality of work. PRIs headed by women office-because are prone to commit lapses due to several pressures on them. PRIs are mostly dependents upon the governments-in-aid and their internal revenue generating efforts are quite negligible. Upper two tiers have not powers to impose taxes, fees etc. hence they are totally dependent upon the state for their finances. Majority of the representatives of the PRIs are not satisfied with the various provisions made in the Constitutional Amendment Act and the HPPRI Act because in overall terms the financial status of PRIs is not very satisfactory hence lot of improvement are desirable to address the various financial problems of the PRIs.

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