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Dynamics of Fiscal structure of Rural Local Finance in Haryana

Dr. Jagdeep Kumar

Assistant Professor, Department of Economics, M.D. University, Rohtak

Abstract: This fiscal analysis aims to delve into the financial landscape of Panchayats in Haryana, offering a comprehensive examination of revenue generation, and the overall fiscal health. By scrutinizing the financial mechanisms and resource allocations, this study seeks to shed light on how Panchayats in Haryana contribute to local development, infrastructure enhancement, and the well-being of their constituents. Understanding the financial dynamics of Panchayats is crucial for assessing their efficacy in delivering essential services and fostering local development. This paper aims to contribute valuable insights that can foster sustainable Panchayat Finance at the grassroots level in Haryana.

Key words: Rural, Finance, Fiscal structure.

Introduction

Panchayats, as the grassroots level of local governance in India, play a pivotal role in the country's decentralized system. The administration of Local self-government including municipal corporation was assigned to the state under entry no 5 of the State lists. Apart from this, the village panchayats were placed under article 40 of the directive principles of the state policy, which direct State to take necessary steps to enable village panchayats with such power and authority so that they can function as an independent unit of self- government. In the light of these constitutional provisions, the government of India had taken several steps to establish local bodies as an institution of self-government. In this direction many committees were constituted to study feasibility and mechanisms to establish rural self-government in India. The Balwant Rai Mehta Committee, known as the Committee on Panchayati Raj Institutions was constituted in 1957 to examine the Community Development Program and the National Extension Service. The committee was chaired by Balwant Rai Mehta, a prominent Indian politician and social worker. The primary objective of this committee was to study the functioning of the Community Development Program and the National Extension Service and to suggest measures for the establishment of democratic local self-government institutions in rural areas. the committee submitted its report on 24.11.1957 and recommended the establishment of a three-tier system of Panchayati Raj Institutions. The village-level Panchayat, known as Gram Panchayat, was recommended as the basic unit of administration. It was envisaged as an elected body responsible for local governance. The committee also stressed the importance of providing adequate financial resources to Panchayats to enable them to carry out their functions effectively. The Ashok Mehta Committee, officially known as the "Committee on Panchayati Raj and Municipalities," was another significant committee in India that played a crucial role in shaping the discourse on local self-governance. The committee was constituted in December 1977 and was chaired by Ashok Mehta, a renowned political scientist and social worker. The committee recommended a three-tier system for Panchayati Raj, similar to the Balwant Rai Mehta Committee. The tiers included the village, block (Tehsil or Taluka), and district levels. The committee stressed the importance of financial autonomy for Panchayati Raj institutions. It recommended the creation of a State Finance Commission to review the financial position of local bodies.

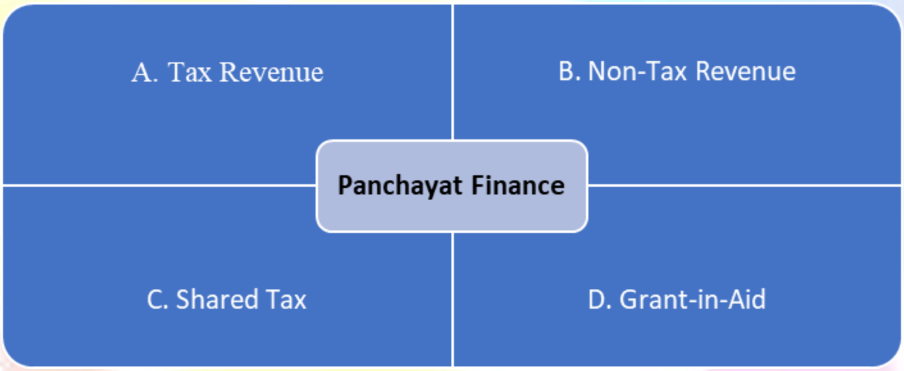
Thereafter, another committee under the chairmanship of Sh. LM Singhvi committee was constituted in1986, this committee recommended establishment of State Election Commission to conduct Free and fair election and of State Finance Commission to recommend the principles for sharing revenues between the state and local bodies based on fiscal assessment of financial position of the Panchayats. Singhvi committee had also observed that PRIs cannot be established as an institution of self-government until Constitutional status is bestowed on it. Elections must take place within six months after completion of five years term. The Committee also recommended the reservations of seats for Women and the Scheduled Castes, and the Scheduled Tribes to ensure the participation of marginalized sections in local government. In the light of these recommendations, a historical 73rdconstitutional amendment bills were introduced by the Prime Minister Sh. P.V. Narasimha Rao, which were passed by both the houses of the parliament in 1992. The 73rd constitutional amendment Act, 1992 related to PRI came into force on April 24, 1993. The Panchayats were inserted in Part-IX of the Constitution and twenty-nine functions were assigned to the PRIs under Eleventh Schedule of the Constitution. The amendment was enacted to empower local communities and promote democratic decision-making at the grassroots level.

The 73rd Amendment aimed to decentralize power, promote grassroots democracy, and facilitate local development. It marked a significant step in empowering rural communities and ensuring their active participation in the decision-making process. The amendment has been followed by subsequent amendments and state-level legislations to further refine and strengthen the Panchayati Raj system in India. The government of Haryana enacted the Haryana Panchayati Raj Act, 1994(Act No. 11 of 1994) which has been enforced w.e.f. 22nd April 1994. The amendment introduced a three-tier system of Panchayati Raj institutions at the village, intermediate (block), and district levels. These are known as Gram Panchayats, Panchayat Samitis, and Zila Parishads, respectively. In Haryana there are 6352 institutions of Rural Local Bodies out of which 21 Zila Parishads, 126 Block Samiti and 6205 Gram Panchayats. Under Section 21 of the Haryana Panchayati Raj Act, (1994),twenty-Nine functions have been assigned to the Gram Panchayats and similar functions have been assigned to the Block Samiti under section 75 of the act. Zila Parishad has been assigned the role is to supervise and co-ordinate under section 137 of the PRI Act, 1994.

Panchayat Finance

The finance of Panchayats split into four categories i.e. Tax Revenue, Non-Tax Revenue, Shared Taxes, and grants in aid. The Gram Panchayats (GP) are empowered collect revenue from various tax and non-tax sources. The GPs collect tax revenue from House tax and additional stamp duty. Similarity, the village panchayats collect revenue from non-tax sources like village common land/Shamlat land. Apart from this, the panchayats also get share from the net proceeds of the State Taxes. In addition, to these taxes and non-tax sources, the Panchayats also gets fiscal transfer from Centre and State government in the form of Grant in Aid. The State Finance Commission (SFC) and Centre Finance Commission (CFC) also provide grants to the local bodies.

Components of Panchayat Finance



A. Tax Revenue: The GPs may impose house tax and additional stamp duty on the sale/purchase of land in Panchayat areas in accordance with section 41(1) of the PRI Act.

i) House Tax (Chullah Tax)

The Haryana Panchayati Raj Act, 1994's section 41(i) authorizes the Gram Panchayat to impose the House tax, also referred to as the "Chulhah Tax." The government removed the house tax on residential buildings on November 1, 2007, however it was later reinstated on January 10, 2011. Currently, the following rate is used to collect home tax are Rs. 30/- for Landowner/Shopkeeper, Rs. 20/- Tenant of land/an Artisan and Rs. 10/- for unskilled labourers.

ii) Additional Stamp Duty

The Indian Stamp Act of 1899 established the government's authority to impose the stamp fee. If any immovable property located in the Gram Panchayat (GP) region is sold, gifted, or mortgaged, the GP is empowered to levy additional Stamp Duties at the rate of 2%.

B. NON-TAX REVENUE

i) Village Common/Shamlat land

In Haryana, panchayats rely heavily on common land, also known as Shamlat land, as a non-tax source of income. Only 2,10,811 of the 8,52,341 acres of land that the Panchayats in Haryana own are suitable for cultivation, while the remaining 6,41,530 acres are not. Panchayats generate revenue by auction of lease out cultivable property for cultivation. Moreover, panchayats also earn revenue from non-cultivable land which includes ponds, roads, forests, mountains, rives, drains, grazing grounds, etc.

ii) Revenue from Other Common Property Resources (CPRs)

The Common property resources (CPR) are also a part of non-tax revenue source for village Panchayats. CPRs are found in the villages in the form of trees, woodlands, grazing ground, common waste land, rivers, village pond, Tanks well, pathways, minerals etc.

Table 1:Tax and Non-tax Sources of Gram Panchayats

Year	Tax Revenue	Non-Tax Revenue		Grand Total
	Chullah Tax	Village Common Land	Other Common property resources	
2004-05	7.42	108.82	33.50	**149.74**
2005-06	7.49	89.33	34	**130.82**
2006-07	7.45	86.91	35.80	**130.16**
2007-08	6.60	158.68	36.00	**201.28**
2008-09	NA*	181.41	36.70	**218.11**
2009-10	NA*	160.95	38.25	**199.20**
2010-11	NA*	168.16	40	**208.16**
2011-12	06.01	204.4	43.50	**253.91**
2012-13	4.32	230.94	45.68	**280.94**
2013-14	3.57	254.03	47.95	**305.55**

*House Tax was abolished on 01.11.2007 and re-imposed on 10.01.2011 by the govt. therefore, during this period no House Tax was collected.

Source: Third & Fourth State Finance Commission Haryana Reports

C. SHARED TAX: Shared taxes are those that which are levied by the State government and proceeds are shared with the local bodies as per recommendations of the State Finance Commission. The State Government share the net proceeds of the State Excise duties, VAT with the PRIs. The details of the revenue received from shared taxes are given in the table below:

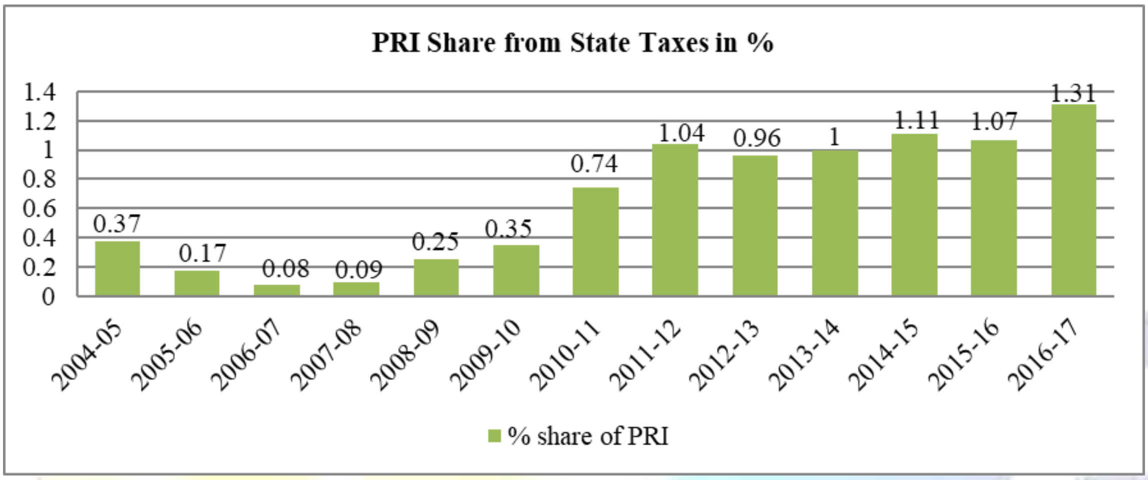
Table 2: Shared Taxes to PRI (in Rs. Crore)

Year	State Excise duties	VAT	Total	% share goes to PRI
2004-05	1013.16 (21.48)	4760.91 (Nil)	5774.07 (21.48)	0.37
2005-06	1106.86 (11.24)	5604.45 (Nil)	6711.31 (11.24)	0.17
2006-07	1217.10 (6.57)	6853.24 (Nil)	8070.34 (6.57)	0.08
2007-08	1378.81 (8)	7720.98 (Nil)	9099.79 (8)	0.09
2008-09	1418.53 (24.02)	8154.73 (Nil)	9573.26 (24.02)	0.25
2009-10	2059.02 (38.55)	9032.37 (Nil)	11091.39 (38.55)	0.35
2010-11	2365.81 (37.34)	11082 (62.00)	13447.81 (99.34)	0.74
2011-12	2831.89 (48.04)	13383.89 (121.40)	16215.78 (169.44)	1.04
2012-13	3236.47 (43.35)	15376.58 (135.67)	18613.05 (179.02)	0.96
2013-14	3697.34 (49.20)	16774.33 (156.53)	20471.67 (205.73)	1.00
2014-15*	3470.45 (70.18)	18993.25 (179)	22463.7 (249.18)	1.11
2015-16*	4567.59 (109.99)	25000 (206.62)	29567.59 (316.61)	1.07
2016-17(RE)*	5251.58 (216.07)	28750** (230.16)	34001.58 (446.23)	1.31

Source: Various State Finance Commission of Haryana Report.

* Data for these years are taken from Budgetary Transfer to Local Bodies, Finance Department, Government of Haryana**Revise Estimates**

Data from 2004–05 to 2016–17, illustrates the revenueearned by the state government from the Value Added Tax (VAT) and Excise Duty. A portion of the net proceeds is paid to the PRI as compensation, as indicated by the values in brackets. In 2010, the surcharge on VAT was introduced. Out of the total revenue received from shareable taxes 0.37 was shared with the PRI in 2004-05. In 2007–08, the percentage was dropped to 0.09%. These percentage figures show how little money is goes to the PRIs. After rising to 1.04% in 2011–12, this percentage share fell for the next two years. The overall share percentage allocated to the PRI, ranging from.08% to 1.31%.



D. CFC, SFC & other Grants:

Panchayats received grants in aid from different sources i.e. the Centre finance Commission (CFC) and State Finance Commission. Similarly, the State and Center Governments also provide grants to the Panchayats. The details of grants provided to the PRI during 2004-05 to 2013-14 has been in the Table 3:

Table 3: Growth and Composition of Grants and Subsidies to PRI

Year	HRDF & District Plan Fund	HRDA	CFC	SFC	Other Grants & Subsidies	Total
2004-05	182.47	*NA	29.4	77.38	58.33	347.58
2005-06	172.01	*NA	77.60	85.12	92.39	427.12
2006-07	221.85	*NA	77.60	120.64	92.64	512.73
2007-08	200.49	*NA	77.60	130.91	136	545
2008-09	370.75	10.00	77.60	196.69	175.49	830.53
2009-10	715.92	79.17	77.60	214.58	262.56	1349.83
2010-11	429.75	24.94	101.17	185.17	98.21	839.24
2011-12	537.51	07	157.53	237	2.97	942.01
2012-13	630.33	70	231.26	266.36	4.67	1202.62
2013-14	974.07	15	291.24	213.39	152.90	1646.6

*NA: HRDF was established on 29.10.2007, **Source: Third & Fourth State Finance Commission Haryana Reports**

The Haryana's PRI received substantial funding from the HRDF and the District Plan Fund. In 2004-05, the amount of Rs. 182.47 crore was allocated, which was increased to Rs. 715.92 crore in 2009-10. The PRI also receives grants from the Haryana Rural Development Authority (HRDA), which was established on October 29, 2007. The HRDA released Rs. 10 crores in 2008-09 and Rs. 79 crores in 2009-10. The HRDA grant is unpredictable because it is entirely based on push and pull techniques.

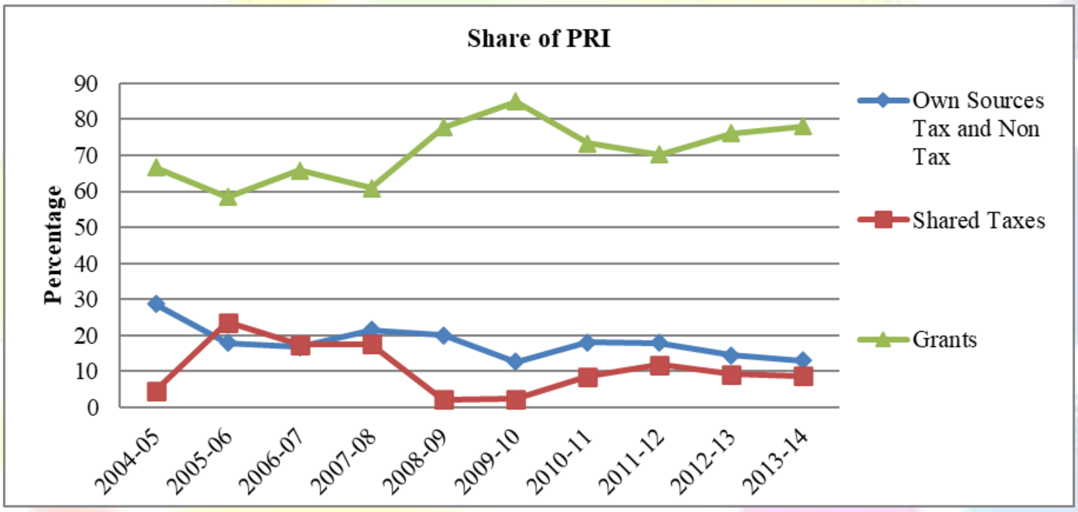
Table 4: Comparative analyses of PRI Revenue (%)

Year	Tax and non-tax	Shared Taxes	Grants	Total
2004-05	28.72	4.60	66.68	100
2005-06	17.92	23.57	58.51	100
2006-07	16.71	17.48	65.81	100
2007-08	21.49	17.64	60.87	100

2008-09	20.05	2.21	77.74	100
2009-10	12.62	2.44	84.94	100
2010-11	18.09	8.63	73.28	100
2011-12	17.89	11.93	70.18	100
2012-13	14.56	9.28	76.16	100
2013-14	13.08	8.81	78.11	100

Source: Third & Fourth State Finance Commission Haryana Reports

Compared to other income streams, such as non-taxable and taxable sources as well as state taxes shared with the PRI, the data indicates that the Grant in Aid (GIA) makes the largest and most important contribution. Except for 2004–2005, the percentage of tax and non-tax revenue is roughly 10%–20%. The share contribution is also quite small, except for 2005–06, 2006–07, and 2007–08, when it was almost 10%. Since it contributed a larger percentage than all other sources throughout the reference period, GIA held a sacred place in PRI Finance. 66.68% of the PRI's revenue in 2004–05 came from Grant in Aid. In 2009–10, this percentage rose even higher to 84%. This portion of Grant consistently held the top spot in 2012-13 and 2013-14 also.



The figure displays the proportion of the PRI's various revenue sources. The three categories of the PRI's total income are: Own Sources (Tax and Non-Tax); Share from State Taxes; and Grant in Aid. Over 60% of the total income comes from grants and other forms of assistance. The percentage of the grant in aid rose to 77.74% in 2008–09 and to 84.94% in 2009–10. It decreases slightly in 2013–14. The revenue from taxation and share from state taxes are showing almost same percentage. Whereas the percentage of grants is maintained all time high position which shows high dependency of PRI on GIA.

Conclusion

The 73rd Constitutional Amendment Act of 1992 is a significant piece of legislation in India that aimed to strengthen rural local self-governance by providing constitutional status to Panchayati Raj institutions. The amendment was enacted to empower local communities and promote democratic decision-making at the grassroots level. The fiscal analysis of Panchayats finance of Haryana shows that despite recognizing PRI as a third tire of our fiscal structure, these local units are largely dependent on higher governments for fiscal transfers. These local bodies are overburdened with the functions as they have no or very limited financial powers in comparison to the State and Centre governments. Taxation powers assigned to the local bodies are of permissive nature. This share of grant in aid in the overall panchayat’s finance is around 80 per cent and this percentage is gradually increasing. This overall fiscal position of the Panchayats indicates that PRIs have to wait more to be recognized as unit of self-government as envisaged under article 40 of the Directive principles of state policy.

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