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Title: Shri Avinash Rai Khanna called the attention of the Minister of Panchayati Raj on the need to strengthen the Panchayats financially in order to fulfil their constitutional obligations and to discharge their duties effectively.

MR. SPEAKER: Now, the House will take up item no. 16, Calling Attention.

Shri Avinash Rai Khanna.

...(*Interruptions*)

SHRI AVINASH RAI KHANNA (HOSHIARPUR): Sir, I call the attention of the Minister of Panchayati Raj to the following matter of urgent public importance and request that he may make a statement thereon:

> "The need to strengthen the Panchayats financially in order to fulfill their constitutional obligations and to discharge their duties effectively. "

MR. SPEAKER: Where is the Minister of Panchayati Raj?

...(*Interruptions*)

MR. SPEAKER: This is unfortunate.

...(*Interruptions*)

THE MINISTER OF PARLIAMENTARY AFFAIRS AND MINISTER OF INFORMATION AND BROADCASTING (SHRI PRIYA RANJAN DASMUNSI): Sir, the Minister of Panchayati Raj was informed that after the Papers are laid, the Calling Attention will be taken up. ...(*Interruptions*) But, I think, he got a message that the House would be adjourned. I apologise for that. I will definitely bring this to his notice. ...(*Interruptions*)

12.07 hrs.

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(At this stage, Shri Bhanwar Singh Dangawas and some other hon.

Members came and stood on the floor near the Table)

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THE MINISTER OF PANCHAYATI RAJ, MINISTER OF YOUTH AFFAIRS AND SPORTS AND MINISTER OF DEVELOPMENT OF NORTH EASTERN REGION (SHRI MANI SHANKAR AIYAR): Sir, I regret deeply my absence as I was busy in the Rajya Sabha placing a Statement. ...(*Interruptions*) I am here to say that in response to the Calling Attention Motion moved by Shri Avinash Rai Khanna, I have a Statement ready which with your permission I wish to place on the Table of the House. ...(*Interruptions*)

MR. SPEAKER: All right. The Statement is laid on the Table of the House.[MSOffice1]

...(*Interruptions*)

SHRI MANI SHANKAR AIYAR : * Article 243G of the Constitution provides that the legislature of a State may by law endow the Panchayats with such powers and authority necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats for the preparation of plans for economic development and social justice and the implementation of related schemes as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule. The Eleventh Schedule has a list of 29 items and in order for the Panchayats to perform their role effectively in respect of any of the items that are devolved to them by the State, it is necessary that the transfer of the functions, funds and functionaries should be commensurate to the role expected of the Panchayat at the appropriate level.

In order to clearly define the role of the Panchayats at the three tiers in respect of the functions devolved to them the Ministry of Panchayati Raj has been pursuing with the States the drawing up of Activity Maps. The next step in getting an effective financial system going is to ensure that financial devolution matches the Activity Mapping. The Ministry of Panchayati Raj is also pursuing with the States the need to introduce a Panchayat Sector Window in their budgets for each Department concerned with the functions devolved to the Panchayats so as to clearly show the funds assigned to each Panchayat in the three tier system.

Funds flow to Panchayats from three sources, namely, devolution from the Central Government, from the State and own revenues. Central funds constitute the bulk of the funding through Centrally Sponsored Schemes and for that reason; there is scope for the Central Government to influence the process of strengthening of Panchayats. A Committee with Secretary (Panchayati Raj) as co-chair has been constituted on the direction of the Cabinet Secretary to review the

* Laid on the Table and also placed in Library. See No. LT 6937/2007

major Centrally Sponsored Schemes of the different Ministries of Government of India with a view to affording centrality to the Panchayats in the implementation of these schemes.

Further, the key to effective performance by Panchayats lies in the devolution of adequate untied funds to them, so that they can perform their assigned public services. The main sources of untied funds to Panchayats are:

(a) Tax and non-tax revenues raised from the sources assigned to them; and

(b) Block unconditional transfers provided by the States and Central Government by way of share in taxes or through block grants.

The State Finance Commissions set up under Article 2431 of the Constitution are required to review the financial position of the Panchayats and to make recommendations inter-alia regarding the determination of the taxes, duties, tools and fees which may be assigned to or appropriated by the Panchayats. The reports of SFCs are considered by the State Governments and decisions taken thereon.

A critical factor necessary for strengthening Panchayats is to enable and empower them to enhance their own revenues. Requiring Panchayats to mobilize their own revenues strengthens the link between revenue and expenditure decisions of Panchayats, which is extremely important to promote both efficiency and accountability in the provision of services by them. For ensuring effective revenue mobilization by Panchayats, there is a need to reorient the legal and policy regime with a view to giving Panchayats more tax handles to widen their revenue base, as also ensure that the taxation powers currently given are effectively operationalized. Meeting the challenge of accelerating revenue mobilization by Panchayats will require effective and close coordination between the Panchayats and the State Government as taxation powers of Panchayats are governed by the State Panchayati Raj Act and the Rules made there under.

A study by the National Institute of Public Finance and Policy has shown that although there were 66 types of fees and charges of taxes, levied by Panchayats in different States, most existed on paper and were not levied. It seems that none of the revenue handles assigned to Panchayats except property tax can generate much revenue. The property tax is levied in nominal terms (maximum 10%), even this is not collected actually. Water charge, the only important non-tax revenue has been found difficult to be collected by Panchayats. Expanding the revenue envelope involves the following:

- A re-look at the tax powers assigned to Panchayats;
- A reliable data and information system;
- Capacity building to administer and enforce the tax at Village level; and
- Adopting a set of incentives and disincentives aimed at increasing substantially the tax collections.

NIPFP has estimated that the current level of own revenues of Panchayats is estimated at Rs.3000 crore and without reforms in the taxation structure, improving efficiency of collection would only result in collection of Rs.10,000 crore. Even this amount is totally inadequate for any meaningful expenditure on services by Panchayats in their areas. Moreover, there is a lot of variation amongst States in the tax revenue collected by the Panchayats. In some States, the annual collection is as low as a crore.

The Ministry of Panchayati Raj organised a National Seminar on Panchayat Level Resource Mobilization and Efficient Fiscal Transfer on 6-7 July 2007. A number of recommendations emerged from the seminar and some of the important ones are:

- States shall prepare compendium of the legal provisions and executive orders issued by the State Governments in respect of the administration of taxes by the Panchayats. The compendium will contain the details of incentivisation programmes, recommendations of the State Finance Commissions and innovations adopted by Panchayats/States to improve resource mobilization at the Panchayat level through levy of taxes and better collection mechanisms.
- State Governments would assist the State Finance Commissions to lead policy work in respect of exploring the appropriate tax and non-tax revenue assignments to the Panchayats.
- State Governments to consider assigning a stipulated percentage of levy on the VAT turnover, which could be assigned to Panchayats. Also powers to be given to District and Intermediate Panchayats to levy local business taxes or charges in locations close to urban areas.
- State Governments while undertaking the assignment of tax revenues to Panchayats shall ensure that each level of Panchayat is given a basket of at least one or two important tax handles.
- PRIs, particularly Village Panchayats be persuaded to undertake systematic and timely assessments, to survey fully the tax base and to enforce tax collection. States shall undertake a campaign mode approach on improving tax collection based on the existing legal regimes and overcome the large slack in revenue collection.
- States shall re-examine the current rates of taxation previously fixed and consider an upward revision, keeping in mind current circumstances. In this respect, States will endeavour to remove maximum limits fixed on tax and all conditionalities that hamper or restrict the powers of Panchayats to tax.
- States to take steps to strengthen the administrative and enforcement capacity of Panchayats to collect revenues through frequent training of tax collectors in Panchayats to determine and collect tax demands in accordance with rules and regulations.
- State Governments to ensure that their training programmes for Panchayat elected representatives and officials contain well-structured modules on administration and collection of taxes and non-tax revenues by Panchayats.
- States could consider incentivizing tax effort by Panchayats by reworking the formulae for distribution of revenue from the State.

The recommendations of the National Seminar have been referred to the State Governments for follow up action.

In order to improve the resource availability with PRIs, the Twelfth Finance Commission recommended substantial transfers to the Panchayats directly from the Central Government. An amount of Rs.20,000 crore is to be transferred to the Panchayats over a five-year period starting from 2005-06 at the rate of Rs.4000 crore per year. Similarly, the Ministry of Panchayati Raj aims to ensure that the 13th Finance Commission carries forward the process of devolution of untied non-plan grants.

MR. SPEAKER: Shri Avinash Rai Khanna, do you have any questions to ask?

...(*Interruptions*)

SHRI AVINASH RAI KHANNA (HOSHIARPUR): No questions. ...(*Interruptions*)

12. 08 hrs.