



# Financing Panchayats in Odisha

## Prospects & Challenges

*A study in four districts in Odisha*

2009

Centre For Youth and Social Development

# **Financing Panchayats in Odisha**

## **Prospects & Challenges**

(A study in four districts in Odisha)

**Centre for Youth & social Development (CYSD)**  
**Bhubaneswar**

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# FOREWORD

Panchayats have been the institutions of village governance since time immemorial as units of local administration based on perfect democracy and individual freedom. It has been observed that democracy at grass root level is meaningless without participation and decentralization. The Gram Panchayat in Orissa constitutes the basis of rural local government. 86.6% of people in Orissa live in rural areas. The Grama Panchayat was started in Orissa as per the Orissa Grama Panchayat Act, 1948. The 73rd Amendment Act 1992 of the Indian Constitution is very remarkable. The main objective of establishing rural local bodies like Grama Panchayat in India is based with the principle of democratic decentralization and direct participation of the People in administration. Though devolution has taken place, the financial autonomy of Panchayats is still far away from the reality. Powers of the Panchayats with respect to generate revenues from own sources are not actualized. Panchayats attention towards the development of social sectors at the ground level is very less.

Looking into this, CYSD initiated the exercise to assess the field reality of the panchayat finance system through a comprehensive study at different stakeholders' level in four tribal districts of Koraput, Kalahandi, Keonjhar & Sundargarh. These districts have been selected for this study on the ground of incidence of poverty & backwardness. This study tries to unravel different issues with regard to different sources of revenues generated by the Panchayats, extent of utilization and beneficiaries in the different development programs, examining the roles, responsibilities as well as the potential and capacities of the Panchayats on generating revenues from external as well as internal sources.

This report is dedicated to the intellectuals, researchers, activists & the PRI members. The findings of this report will be useful for the researchers for further analysis & exploring the alternative source of revenue generation of the Panchayats.

**Prafulla Kumar Sahoo**  
Chairman

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## Abbreviations

CSO	-	Civil Society Organization
EFC	-	Eleventh Finance Commission
GP	-	Gram Panchayat
IRM	-	Internal Revenue Mobilization
KL grant	-	<i>Kendu</i> Leaf grant
NFC	-	National Finance Commission
NREGA	-	National Rural Employment Guarantee Act
PDS	-	Public Distribution System
PRI	-	Panchayati Raj Institution
SCs	-	Scheduled Castes
SEBCs	-	Socio-Economically Backward Classes
SFC	-	State Finance Commission
SGSY	-	Swarna Jayanti Gram Swarajgar Yojana
STs	-	Scheduled Tribes
TFC	-	Twelfth Finance Commission
TOR	-	Terms of Reference

# Chapter 1

## Introduction

### 1.1 Decentralized local self-governance

In the year 1992, four and half decades after independence, India woke up to another tryst with destiny. It enacted the 73rd and 74th Constitution Amendment Acts paving way for local self-governance at rural and urban local body levels. Article 243-G of the Constitution looks at the panchayats, the rural local bodies, as “institutions of self-government”. Though state legislatures determine the size and extent of devolution of functions and powers to the panchayats, the panchayatiraj institutions (PRIs) are believed to have a distinct role in determining local development programmes including development of roads, primary health services, safe drinking water and schooling facilities, and imparting social justice. With regard to the roles and responsibilities of the panchayats, the Second State Finance Commission (SFC), Orissa in its report submitted to the Government of Orissa in 2004 observes that:

*“Panchayats, as institutions nearer to the people, have to identify local needs and priorities and prepare plans and projects and implement them for the benefit of the people in their respective areas. PRIs are also expected to protect and promote cultural heritage and integrate socio-linguistic diversities of the people and help maintain peace. At the local level, provision of school education, primary health, safe drinking water, roads and social benefit to the poor assume critical importance for the Grama Panchayats. It is in fact a part of the devolution package that these local institutions are made effectively functional, and play a pivotal role in rural development and poverty alleviation. Their functions have become increasingly important as they affect the day-to-day lives of people; particularly those belonging to the poorer and*

*socially disadvantaged groups like the SCs, STs, SEBCs and the women...Their roles have been defined. New perspective has been developed in regard to their functions and responsibilities which include development of agriculture and allied activities, health and family welfare, education, development and management of water resources, food supplies, women and child development, rural development and development of socially backward groups of people like the SCs and STs.” (p. 88)*

In order to enable the PRIs deliver their responsibilities effectively, it is required that they need to be provided with matching financial powers, a broader tax and non-tax base for revenue generation, increased share from state taxes, revenues and a higher flow of grants-in-aid, both from the State and Central Governments. Long back in 1963, the Santhanam Committee report, the first ever all-India report on panchayat, clearly brought out the need for financial and administrative autonomy as well as an integrated policy to build self-governing institutions at the sub-state level. It states:

*“Each of them (panchayati raj institutions), being mainly an elected body, has to be self-governing and autonomous to some extent...Financial resources have to be adequate for the functions allotted to each Panchayati Raj institution...It is essential for stability and growth of these institutions that they should have substantial and growing resources which are entirely within their power to exploit and to develop.” [Government of India (1963) pp 4-5].<sup>1</sup>*

## **1.2 Decentralized finance**

Fiscal decentralization means the transfer of taxing and spending powers to the local level government. It comprises the financial aspects of devolution to regional and local government. It is an alternative description of European

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<sup>1</sup> As quoted in Oommen and Datta, 1995, *Panchayats and their Finance*, New Delhi: Concept Publishing Company, p. 4



description of "central-local (or intergovernmental) financial relations" and American description of "fiscal federalism".

Fiscal decentralization covers two interrelated issues. On one hand it addresses the division of spending responsibilities and revenue sources between levels of government (national, regional, local etc), and on the other it involves the amount of discretion given to regional and local governments to determine their expenditures and revenues (both in aggregate and detail). These combined dimensions have a significant impact on the reality of decentralization in its broader political and administrative sense. The extent of power and responsibility those regional and local governments actually exercise depend substantially on:

- i) what range of public services they finance,
- ii) whether their revenues are commensurate with their responsibilities,
- iii) how much real choice they have in allocating their budget to individual services, and
- iv) Whether they can determine the rates of their taxes and charges (both allowing them to vary their level of spending and making them answerable to the payers).

### **1.2.1 Devolution of financial powers to local institutions of government**

The main objective of the 73rd and 74th Constitution Amendment Acts is to make the PRIs and Urban Local Bodies (ULBs) effective institutions of self-government in rural and urban areas respectively. For achieving this objective availability of adequate financial resources is absolutely necessary. As the Santhanam Committee Report, 1963 emphasizes the need for financial and administrative autonomy of the local bodies to make these institutions self-governing in true sense, the devolution of financial powers to the local self-governing institutions assume greater significance.

The 73rd Amendment under Article 243-I and the 74th amendment under Article 243-Y empower the SFC to look into the financial needs of the rural and urban local bodies respectively. So far as local self-governance is concerned, it is worth mentioning here that there are fundamental differences between the National Finance Commission (NFC) constituted by the President of India under Article

280 of the Constitution and the SFC constituted by the Governor of a State under Articles 243-I and 243-Y of the Constitution. The NFC recommends measures to augment the Consolidated Fund of the state for supplementing the resources of its PRIs and ULBs. On the other hand, the SFC is constituted with intention to strengthen the financial position of the institutions of local self government through recommendation of principles for transfer of funds including grants-in-aid, and assignment of net proceeds of taxes, duties and fees to them.

### **1.3 Orissa and decentralized governance**

#### **1.3.1 A brief history of panchayati raj in Orissa**

The history of local self-government in Orissa is as old as 1948 when the Orissa Grama Panchayat Act was passed with a view to develop local self-government in the villages. After the recommendations of the Balwant Rai Mehta Committee (1957) to constitute local decentralized units, i.e., Panchayat at the village level, Panchayat Samiti at the intermediate level and Zilla Parishad at the District level, the Orissa Panchayat Samiti and Zilla Parishad Act was passed in 1959. The Act became effective from 26 January 1961. The Orissa Panchayat Samiti and Zilla Parishad Act, 1959 which earlier provided for indirect election of the Sarpanch by the ward members was amended in 1965 paving way for direct election of the Sarpanch by the voters of the Grama Panchayat. The Act was again amended in 1968 and the Zilla Parishad at the district level of the three-tier system of Panchayati Raj was abolished which was again re established with the introduction of the 73rd Constitution Amendment Act.

The Orissa Grama Panchayat Act, 1964, the Orissa Panchayat Samiti Act, 1959 and the Orissa Zilla Parishad Act, 1991 and the Rules respectively made there under now govern the functioning of all the three tiers of PRIs in the state i.e. Gram Panchayats (GPs) at the village level, Panchayat Samities at the block level and Zilla Parishads at the district level.

Also, it is important to note here that though the GPs and ULBs in Orissa in their present form were constituted in 1950 following the passing of the Orissa Grama Panchayat Act, 1948 and the Orissa Municipal Act, 1950 respectively, it was only

after the enactment of the 73rd and 74th Constitution Amendments that it became mandatory for the State Government to hold elections to the local bodies at regular intervals of five years and also to transfer powers to them to function effectively and independently.

Orissa has made credible attempts to bestow the PRIs with both developmental functions and administrative powers over government officials working at the district, sub-division, block and panchayat levels. This is evident from the recent activity mapping of devolution of functions in the state of Orissa which suggests that functions have been devolved in 29 items under 21 departments.

However, PRIs in the state have been facing economic and institutional constraints, which hamper their efforts for socio-economic development of their respective areas. In this regard, the Second SFC observes that “most of the Grama Panchayats in Orissa are grappling with a narrow tax and non-tax revenue base. Their sources of revenue are virtually stagnating. Attempts to raise internal resources have not yielded any appreciable success. They have not been innovative to mobilize their potential resources.” (2004: 89)

### **1.3.2 Fiscal decentralization in Orissa**

Orissa, a poverty stricken state with nearly half of its population below the poverty line, has been reeling under ill fiscal health since independence. All along it has remained a revenue deficit state till 2005-06 barring 1983-84 when the revenue surplus was Rs. 0.20 crore. For consecutive three years, i.e. 2005-06, 2006-07 and 2007-08, the Government was able to generate revenue surplus of 0.61%, 2.42% and 3.99% respectively. In absolute terms the revenue surplus for the three consecutive years were Rs. 481.19 crore, Rs. 2260.60 crore and Rs. 4243.92 crore respectively. Now again, this fiscal year Orissa has become revenue deficit state with the Government projecting a revenue deficit of Rs. 2284.06 crore in the budget 2009-10. The Second SFC Report (200: 41) observes that “The chronic fiscal ill health owing to continuous huge revenue deficits has hamstrung the human resource development in health and education and has also fettered the long needed social and economic infrastructure provisions in areas like irrigation,

roads and power.” The other fiscal indicators like fiscal deficit and Ways and Mean Advances do not also augur well for the state of Orissa.<sup>2</sup>

Here, in the above context, it is worth mentioning that centre to state resource transfer is a usual practice in federal polity. The primary objective of such transfer is to bring about horizontal fiscal balance among the states. For the purpose of such resource transfer Article 280 of the Constitution provides for constitution of a NFC. Its primary task is to assess the needs of the individual states and their capacity to raise resources, and accordingly deciding on the principle of devolution to strengthen the Consolidated Fund. Besides strengthening a state with weak resource base through provision of larger resources, the NFC has also the responsibility of strengthening the resource mobilization capacity of individual state so as to make it less and less dependent on the centre. However, as pointed out by the Second SFC Report, Orissa, the state had been neglected in terms of resource transfer during the first 10 Finance Commissions. It is only during the tenure of the 11th Finance Commission that measures were taken to correct the imbalance. Despite this corrective measure the per capita revenue surplus for the state has still remained at a distant low of Rs. 9.42 per annum against that of Rs. 1358.16 per annum for Maharashtra.<sup>3</sup>

In such a precarious financial health condition of the state, the PRIs are expected to generate their own revenue through various tax and non-tax measures in order to augment socio-economic development in the respective panchayats. However, the Second SFC observes that PRIs in the state are impoverished and there has been lack of effort on part of the PRIs to enrich their corpus. Ministry of Rural Development, Government of India, also expresses similar views and has raised the following issues relating to PRIs in its memorandum.<sup>4</sup>

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<sup>2</sup> For details see Chapter III of the *Report of the Second State Finance Commission, Orissa*, Government of Orissa, 2004.

<sup>3</sup> For details see Government of Orissa, 2004, *Report of the Second State Finance Commission, Orissa*, Bhubaneswar, p. 56.

<sup>4</sup> See Chapter 8 of the *Report of the Twelfth Finance Commission (2005-10)*, <http://fincomindia.nic.in/ShowContentOne.aspx?id=8&Section=1>, Accessed on 20 November 2009

**Box 1: Issues relating to PRIs raised by Ministry of Rural Development, Government of India**

1. Poor revenue efforts by the PRIs, the internal revenue mobilization (IRM) of the PRIs constituted only 4.17 per cent of their total revenue as per a study done on behalf of the EFC;
2. Inefficiencies arising because of reluctance to charge fees, low rates thereof even when imposed and non revision for long periods;
3. State governments prescribing minimum and maximum rates of tax thereby encroaching into the financial autonomy of the PRIs.
4. Lack of administrative machinery for collection of taxes;
5. Limited capacity of the people to pay taxes in those affected by drought and other disasters;
6. Inability of the central government to intervene in a substantial manner, local bodies being a state subject;
7. Lack of synchronization in the award periods of the central finance commission and the SFCs;
8. Part acceptance/implementation of SFC recommendations by state governments;
9. Release of funds meant for panchayats to line departments which operate independent of panchayats;
10. Inability of the system to regularly collect, compile and monitor the status of panchayat finances;
11. Lack of information on the initiatives that were taken by panchayats towards data base building for which funds were earmarked by EFC'
12. Poor quality of the SFC reports; and
13. The casual manner in which SFCs are constituted.

Source: *Report of the Twelfth Finance Commission (2005-10)*

With regard to constitution of SFC it may be noted that following the provisions of the Article 243-I Orissa constituted its First SFC on 21.09.1996, which was later reconstituted under the chairmanship of Dr. Baidyanath Mishra on 31.03.1998. The Second SFC was constituted vide Notification No. FC (II)-41/2001/23896/F, dt. 5.6.2003 under the chairmanship of Sri Trilochan Kanungo. As per the mandate the Second SFC has already submitted its report which has already been tabled in the Assembly followed by tabling of an Action Taken Report. Presently, the Third SFC has been working under the stewardship of Prof. Sudhakar Panda.

## Chapter 2

# The Study & its methodology

### 2.1 Objectives of the study

As has already been discussed the precarious financial health conditions of the PRIs in the state of Orissa calls for examination of the current state of panchayat finance. CYSD, a leading Civil Society Organization (CSO) in the state, has been responsible for carrying out the present study with the following broad objectives.

- a) To track the funding pattern of the development programmes delivered by the Panchayats,
- b) To assess the institutional capacity of the Panchayats in utilizing the development programmes,
- c) To analyze the Panchayat budgeting system, and
- d) To assess the adequacy/inadequacy of internal/external revenues of Panchayats.

### 2.2 Methodology

Though Orissa has a three tier PRI system, the present study focuses on the lowest level of PRI only, i.e., the gram panchayat (GP). The primary reasons for focusing the GPs are: i) CYSD works directly with the people at the grassroots level for their empowerment and development, and believes that people's participation in local self-governance process will make grassroots democracy a reality while bringing in development; and ii) it is the GP which is bestowed with more power to collect taxes and literature shows that GPs have not done enough to generate revenue at their ends.

The present study is based on primary investigation among the sample panchayats and their people in four districts, namely Kalahandi, Koraput, Keonjhar and Sundargarh. A total of 16 gram panchayats, six in Kalahandi, four each in Koraput and Keonjhar, and two in Sundargarh were selected for the study purpose. Table 1 in Annexure depicts the sample districts and panchayats covered under the study.

The study administered structured questionnaires to collect responses from 401 respondents of 16 panchayats in the four mentioned districts. The respondents were primarily sarpanches, ward members, school teachers, gram sabha members, leaders and members of community based organizations, non-government organizations, federations, youth clubs, libraries, other civil society organizations, and AWWs/ANM/ASHA. Information was collected from these respondents on issues relating to different aspects of panchayat finance, such as

- people's participation in palli sabha and gram sabha,
- discussion on finance related issues in such sabhas,
- income generation by the panchayats and their expenditures,
- people's opinion on resource generation of the panchayats and their involvement in auction of panchayat resources, and
- People's perception on panchayat plans.

Of the total 401 respondents 65% were male respondents and the rest 35% were female respondents. Besides administering structured questionnaire, semi-structured interviews and personal discussions were also carried out among the respondents as part of collection of primary data. The survey primarily focused on:

1. the status of finance of the panchayats,
2. the factors responsible for and possibilities of generating revenues to enhance the autonomy of panchayats, and
3. the extent of utilization of development funds by the panchayats and the constraints faced by them.

Apart from the primary information, secondary data on panchayat finance were collected from concerned block, district and state level offices, and also from literature review. This is worth mentioning here that secondary data relating to panchayat finance were collected for the last three years only.

### **2.3 Study chapters**

Considering the fact that neither the Consolidated Fund is sufficient for effective rural self-governance by the PRIs nor there has been any substantial effort on part of the PRIs to augment revenue generation, this report is an attempt to examine the current status of panchayat finance in the state. The present report is based on a primary study involving four districts of Orissa, namely Koraput, Kalahandi, Keonjhar and Sundargarh. A total of 16 panchayats in the four districts are covered under the study, which are selected on sampling basis.

The report constitutes four chapters. Chapter 1 deals with the concept of local self-governance, fiscal decentralization and the issues thereof in the state of Orissa. The objectives, methodology, Study Chapters and brief description of areas of study are covered under Chapter 2 followed by issues and key findings of the study under Chapter 3. Chapter 4 contains the conclusion and recommendations of the study respectively.

## Chapter 3

# Key issues and Study findings

### 3.1 Current status of panchayat finance and issues thereof

In order that PRIs are able to discharge their responsibilities adequate resources should be made available to them. The major sources of resources available to panchayats can be categorized into: i) taxes assigned by the State Governments, ii) non-tax revenues, iii) loans, and iv) community's contributions. But the poor local government expenditure in India indicates that PRIs are resource crunch<sup>5</sup>.

After the enactment of the 73rd and 74th Constitution Amendment Acts efforts have been made to augment the resources of PRIs and ULBs. As discussed under Para 1.2.1 and 1.3.2, on one hand an NFC has been constituted to recommend measures to augment the Consolidated Fund of the State for supplementing the resources of its PRIs and ULBs. On the other hand, the 73rd and 74th Amendments provide the constitutional basis for financial relation between the state government and local self governing bodies.

The fact that fiscal autonomy cannot be built in a regime of grants-in-aid alone, it is argued that panchayats must be bestowed with powers to mobilize their own resources and also they must enjoy the freedom to borrow or raise loans in whatever manner they choose to fund capital expenditures.

Further, it is an established fact that fiscal autonomy depends a great deal on tax assignments. Article 243 H provides certain taxation powers to the panchayat bodies to augment their resources. It may be noted that the philosophy of taxation is derived from India's rich heritage and ancient texts where it is envisaged that every individual has a responsibility to contribute as much for his/her well being as for the sustenance, and growth of the community and the nation at large.

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<sup>5</sup> For a comparative picture of local government expenditure between India and that of developed and other developing countries please see Oommen and Datta, 1995, *Panchayats and their Finance*, New Delhi: Concept Publishing Company, p. 4.



### 3.2 Taxation powers and sources of revenue of panchayats in Orissa

The following paragraphs delineate the taxation powers and sources of revenue of the Gram Panchayats in Orissa.<sup>6</sup>

Section-83 of the Orissa Grama Panchayat Act, 1964 (Orissa Act 1 of 1965) empowers the gram panchayat to impose the following taxes, subject to Rules framed under the Act and any other order made by the State Government.

- A vehicle tax for four wheeled carriages drawn by horse, two wheeled vehicles, including, cart, Jhataka and tanga, bicycle, rickshaw and cycle-rickshaw;
- A latrine or conservancy tax payable by the occupiers or owners of buildings in respect of private latrines, privies, cess pools or premises of compounds cleaned by the Panchayat;
- A water-rate where water is supplied by the Panchayat;
- A lighting rate for public streets or buildings where undertaken by a Panchayat;
- A drainage tax where a drainage system has been introduced in a Panchayat;
- A fee on private markets, cart stands and slaughter houses;
- A fee on animals brought for sale into or sold in a public market;
- Fees for regulating the movement of cattle for the protection of crops;
- Fees for use of any building, structure, shop, stall, pen or stall in public markets;

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<sup>6</sup> Like the gram panchayats, the panchayat samitis and the zilla parishads are also endowed with taxation powers and enjoy sources of their own revenue generations. For details of the taxation powers and sources of revenue of panchayat samitis and zilla parishads please see Chapter VI of the *Report of the Second State Finance Commission, Orissa*, Government of Orissa, 2004, Pp. 160-1.

- Fees for use of slaughter houses and cart-stands maintained by the Grama Panchayat ;
- Rent from temporary occupiers of open grounds, structures or buildings belonging to or maintained by the Grama Panchayat;
- License fees on brokers, commission agents, weigh men and measurers;
- Any other tax, rate or fee which a GP is empowered to impose by any law in force;
- Any other tax, toll, fee or rate as may be decided by the GP subject to approval of the State Government.

Besides, under Section 55 every GP is empowered to issue license for carrying out any trade, business or calling of certain specified industries, factories, and dangerous and offensive trades. Further, Section 56 empowers the GPs to have control over places of public resort and entertainment. For the purpose of issuing such licenses including their renewal the GPs are empowered under section 57 to levy license fees.

Sub-section (4) of Section 71 of the Orissa Grama Panchayat Act, 1964 makes provision for management and control of certain public properties like village roads, irrigation sources, ferries, waste lands and communal lands, protected and unreserved forests, and markets and fairs by the GPs. However, the 2nd SFC Report observes that despite the provision appearing to be mandatory the GPs do not enjoy any controlling or management authorities over all such properties as the powers are yet to be transferred. Most importantly, it observes that the management and control powers over common property resources such as waste lands and communal lands, and protected un-reserved forests do not appear to have been alienated in favour of the GPs.

Further, Clause (g) of Sub-section (4) of Section 71 of the Act specifies that all incomes arising or accruing from any of the above-mentioned properties should go to the GPs. However, the Second SFC observes that except for a lump sum amount from the existing *sairat* sources nothing else is transferred to the GPs.

Thus, having observed that both tax and non-tax sources made available to the GPs for raising internal revenue are neither broad based nor elastic the Second SFC recommends that the provisions of the Orissa Grama Panchayat Act, 1964 are to be effectively implemented for collection of taxes and non-tax efforts be strengthened.

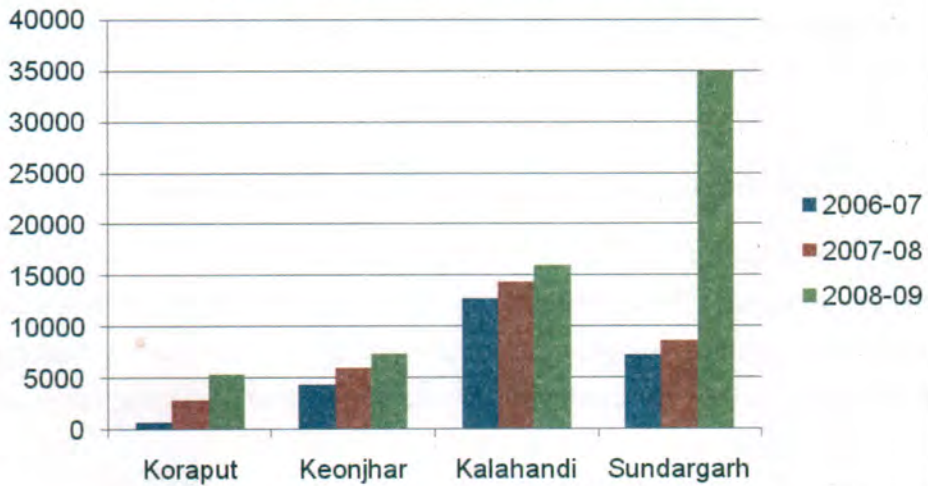
### **3.3 Internal sources of income in the study panchayats**

Cycle tax, house rent, ghat fees, *kanjiahuda* (local term for the place where stray animals are kept), local haat, pisciculture, nomination fees/election fees, marriage fees, RTI fees, orchards and other tax revenues are the major tax revenue sources in the study panchayats. Similarly, NTFP, income from interest and other sources make the bulk of non-tax revenue base in the

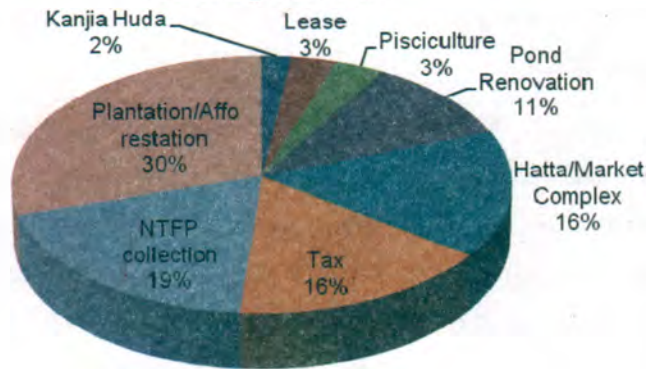
study panchayats. Figure 1 suggests that panchayats in all the four study districts have experienced gradual increase in raising their income from internal sources over a period of three years from 2006-07 to 2008-09. This indicates that all the panchayats have been putting efforts to raise their income sources and striving towards sustainability.

Of the four districts, Kalahandi has been the most efficient in terms of raising income from internal sources as can be observed from Table. There have been efforts in all the three years in panchayats of Kalahandi district to raise income from all the above mentioned tax and non-tax sources except from nomination fees/election fees, marriage fees, RTI and orchard. While Koraput is the only district having income from orchards in all the three years, Keonjhar has made small attempts to collect money as RTI fees in 2006-07 and 2008-09. On the other hand, Koraput is the only district where there has been no income from local haats. Similarly, Koraput and Sundargarh do not have any income from NTFP sources.

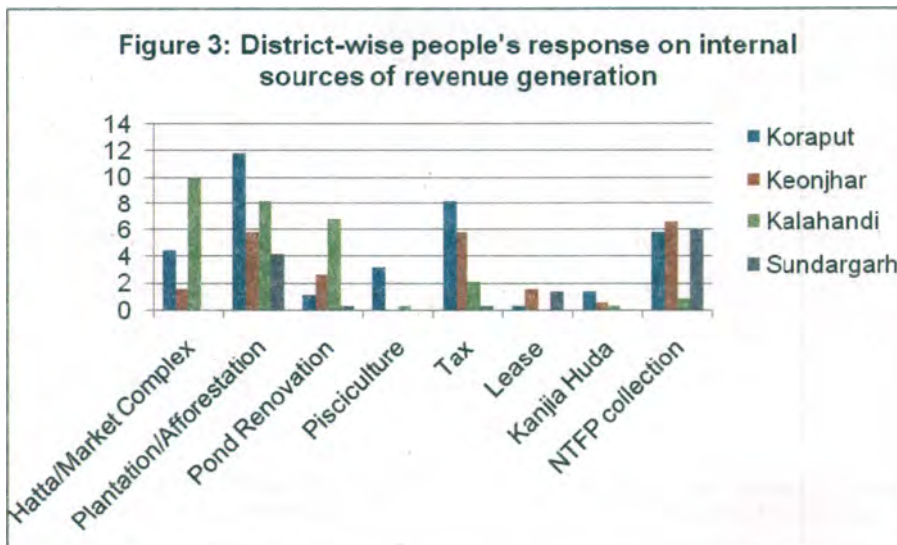
**Figure 1: Income from internal sources**



**Figure 2: People's response on internal sources of revenue generation**



Contrary to the above findings public response in the four districts indicates that there have been opportunities for generating revenue from internal sources by focusing on plantation/afforestation activities, NTFP collection, local haat/market complexes and pond renovation activities. Figure 2 indicates the percentage of respondents of the total respondents believing a particular activity as potential internal source of revenue generation

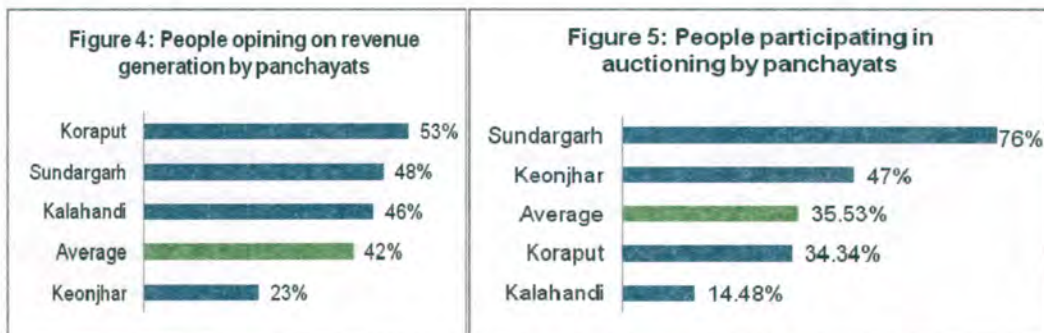


It is ironic that while people from Koraput and Sundargarh sense opportunities in NTFP trading as one of the major sources of augmenting internal revenue (Figure 3), there has been no attempt on part of the panchayats in these two districts to raise revenue in the last three years from NTFP trading (Table). Despite sound participation of villagers in PS/GS, less than half of the GS members (42%) air their views on internal sources of income might be one of the reasons for panchayats not giving priorities to people's choices on sources of internal revenue generation (Figure 4). Similarly, it is observed that in all the districts a small average of 35.53% respondents participating in auctioning processes made by the panchayats. Though participation in such auctioning process is impressive at 76% in Sundargarh district, it is dismally low at 14.48% in Kalahandi district.

The study findings further suggest that only 21% of respondents in all districts believe that panchayats accept their suggestions on internal sources of revenue generation. This is corroborated from the findings that only 22.59% of the total respondents in the four study districts have ever enquired about the income/expenses of their panchayats. In Keonjhar (4%) and Kalahandi (8.28%) districts people enquiring about income/expenses of/by panchayats is very poor. This is somewhat better in Sundargarh where 38% of people enquire about the

same. In Koraput, nearly 55% of people take part in enquiry process, thus making the panchayats more accountable.

These findings indicate that people's participation in PS/GS is limited to mere attendance and not a meaningful participation. This suggests that there is a need for more awareness generation among people about their roles and responsibilities as active citizenry engaging him/herself in day to day panchayat activities. This will result in a more vibrant panchayat having strong base for internal sources of revenue generation and also the panchayat will remain accountable to the people.



Further, it is observed that though there is provision for a panchayat standing committee to suggest on internal sources of revenue generation, a majority 52% of the total respondents in the four districts believe that the panchayat standing committees never give any proposal for revenue generation. This suggests that there is a need for engaging the panchayat standing committees in resource generation processes. In other words, there is a need for capacity building of the panchayat standing committee members in understanding their roles and responsibilities in augmenting internal sources of revenue generation.

### 3.4 External sources of income of the local bodies

#### 3.4.1 The Eleventh Finance Commission and its approach

As has already been discussed under Para 1.2.1, the 73rd Amendment under Article 243-I and the 74th amendment under Article 243-Y empower the SFC to look into the financial needs of the rural and urban local bodies respectively. Its

primary objective is to strengthen the financial position of the institutions of local self government through recommendation of principles for transfer of funds including grants-in-aid, and assignment of net proceeds of taxes, duties and fees to them. Similarly, the NFC constituted under Article 280 of the Constitution recommends measures to augment the Consolidated Fund of the State for supplementing the resources of its PRIs and ULBs.

Towards the end of the tenure of the 10th Finance Commission, it was a felt need that the State Consolidated Fund needed to be augmented to supplement the resources of local bodies. Obliging the amendment made to Article 280, it made recommendations in this regard. For the first time it was the Eleventh Finance Commission (EFC) as per its terms of reference (TOR) suggested measures to augment the consolidated fund of the states to enable them to supplement the resources of the local bodies. However, the EFC faced the following problems with regard to SFC recommendations.<sup>7</sup>

1. Non-synchronization of the period of the recommendations of the SFCs and the central finance commission;
2. Lack of clarity in respect of the assignment of powers, authority and responsibilities of the local bodies;
3. Absence of a time frame within which the state governments are required to take action on the recommendations of the SFCs; and
4. Non-availability of the reports of the SFCs.

Nevertheless, the EFC, while dealing with the issue of local body finances recommended a number of measures which could be taken by the state governments and the local bodies for augmenting the consolidated funds of the states to supplement the resources of panchayats and municipalities. These included assignment of land tax, profession tax and surcharge/cess on state taxes for improving the basic civic services and taking up schemes of social and economic development. Many of these recommended measures have already been

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<sup>7</sup> See Chapter 8 of the *Report of the Twelfth Finance Commission (2005-10)*, Pp. 137, <http://fincomindia.nic.in/ShowContentOne.aspx?id=8&Section=1>, Accessed on 20 November 2009

taken up by the panchayats in Orissa as discussed under the Para 3.3 on internal sources of income generation. The EFC also had recommended reforms in respect of property tax/house tax, octroi/entry tax and user charges.

### **3.4.2 Drinking water and sanitation: Focus in the Twelfth Finance Commission.**

The Twelfth Finance Commission (TFC) for rural local bodies of Orissa has recommended a grant of Rs. 803 crore for the years 2005-06 to 2009-10. This translates to Rs. 160.60 crore per annum. The focus has been on drinking water and sanitation programmes. The recommendation of the TFC grants for rural local bodies for the period 2005-10 has the following specific guidelines.

1. To improve the service delivery by the panchayats in respect of water supply and sanitation;
2. To take over the assets of Swajaladhara schemes and utilize these grants for repair/rejuvenation and maintenance of these projects to make them fully operational and to bear the entire cost of O & M of water supply for an initial period of five years. If not possible, should however, recover at least 50 per cent of the recurring cost in the form of user charges;
3. For disposal of solid waste, cleaning of drains etc., until there is basic sanitation coverage for the purpose of maintaining environmental sanitation;
4. For creation of database and maintenance of accounts through use of modern technology and management systems, where possible.

Accordingly, the Finance Department, Government of Orissa, in its letter no. 42298/F, dated 01.09.2005 to the Commissioner-cum-Secretary to Government, Panchayati Raj Department, Orissa, recommended guidelines to utilize TFC grants for rural local bodies for the period 2005-10 stating the State Government's decision.<sup>8</sup>

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<sup>8</sup> <http://www.orissapanchayat.gov.in/English/download/TFC/TFC%20Guideline.pdf>,

Accessed on 20 November 2009

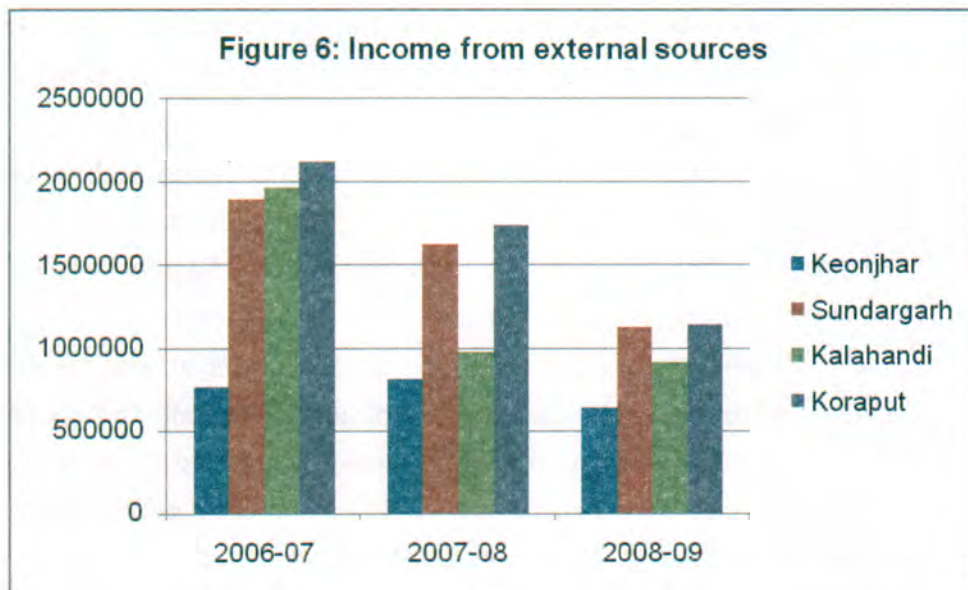


1. The local bodies shall utilize the grants recommended by the 12th Finance Commission only for the specific purposes for which, the Commission has recommended the grant;
2. The PRIs shall take over the assets relating to water supply and sanitation and utilize the grant for repair/rejuvenation and meet the O&M cost of such projects. The PRIs should however, recover 50 per cent of the recurring cost in form of user charges.
3. Since computers have been purchased for 314 Panchayat Samitis and 30 DRDAs for the purpose of maintenance of accounts of all the tiers of the PRIs out of the awards of the 11th Finance Commission, purchase of computer for the Gram Panchayats would not be permissible except the use of modern technology and management systems.
4. Expenditure on salaries of GP Secretaries, computer operators and ABDO-cum-Account Officers shall be made out of the grants recommended by the Commission for RLBs since the Commission has specifically stressed that high priority should be given for maintenance of accounts.

In addition, the Finance Department, Government of Orissa in its guideline also suggested that Rural Piped Water Supply and Tube Wells have to be physically transferred to the Panchayats for maintenance and rejuvenation.

### **3.4.3 External sources of income of the study panchayats**

Table 3 indicates that Orissa received a total of Rs. 19981.65 lakhs as TFC award during 2006-07 under the heads water supply/sanitation, data base/accounting, road/bridge/culvert and PS building. Among the four studied districts while Keonjhar has received the maximum grant of Rs. 825.05 lakhs, Koraput has received the least grant of Rs. 701.35 lakhs.



However, secondary information collected from the study panchayats from 2006-07 to 2008-09 reveals that Koraput has received the maximum revenue from external sources followed by Sundargarh, Kalahandi and Keonjhar (Table 4). Figure 6 indicates that there has been a significant decline in income from external sources over a period of three years from 2006-07 to 2008-09 for the panchayats in Koraput, Sundargarh and Kalahandi districts.

Further, as is evident from Table 4, the external funding sources for all the study districts primarily involve TFC and National Rural Employment Guarantee Act (NREGA). While only Kalahandi has got establishment, infrastructure and emergency grants, both Kalahandi and Sundargarh have received grants for rural housing. On the other hand, Koraput is the only district among the four studied districts which has received government grants for the three consecutive years from 2006-07 to 2008-09.

Similarly, while only Keonjhar and Sundargarh have received *Kendu* Leaf (KL) grants for the three consecutive years, it is only Keonjhar which has received grants under the heads *sairat*, sarpanch/naib sarpanch, member seating fees, secretary salary, ward member seating fees, royalty on MFP, and entertainment and cess grant. (Table 4)

### **3.5 Expenditure in the study districts**

The Second SFC (2004:88) observes that panchayats have the responsibilities of identifying local needs and priorities and accordingly prepare plans and projects to be implemented for benefit of the people. It goes further to identify the priorities like provision of school education, primary health, safe drinking water, roads and social benefit to the poor.

As has already been discussed under Para 3.4.2, the TFC priorities include drinking water and sanitation. Accordingly, the TFC has recommended a grant of Rs. 803 crore for the years 2005-06 to 2009-10 for rural local bodies of Orissa. Besides drinking water and sanitation, grants were released in TFC under the heads data base/accounting, road/bridge/culvert and PS building.

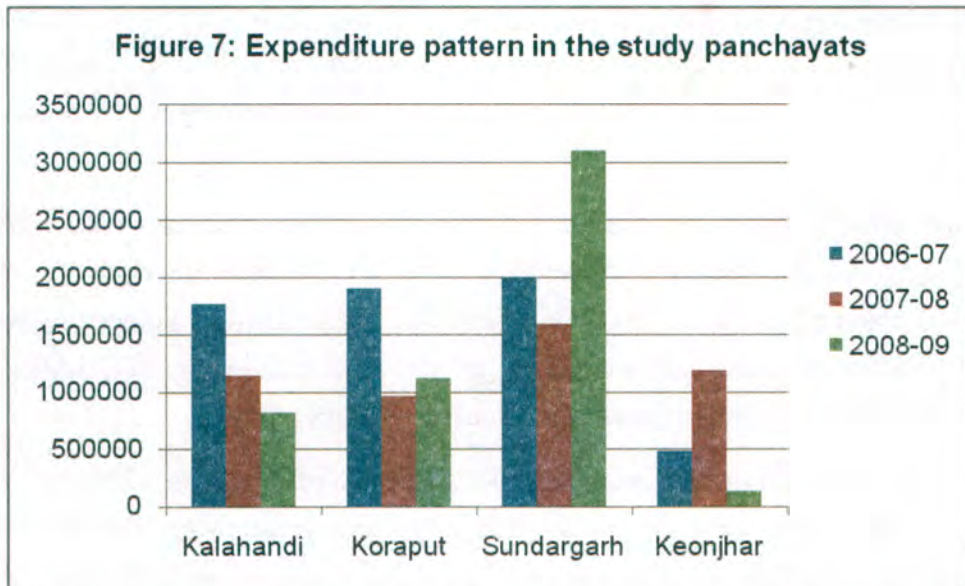
Table 3 reveals that up to September 2007, the state of Orissa as whole has been able to spend 89% of the total Rs. 19981.65 lakh grant received under TFC. Against this financial achievement, except for Keonjhar district, all other three study districts have done fairly better. While Keonjhar could only spend 74% of the allocated money, Kalahandi's achievement has been 100%. Corroborating the fact Table 5 indicates that during the same period Keonjhar has been lagging behind with completion of only one third of its projects on water supply/sanitation.

#### **3.5.1 Expenditure pattern in the study panchayats**

Expenditure pattern in the study panchayats in the four districts, as observed from Table 6, indicate that emphasis has been on infrastructure development, particularly through NREGA activities. Similarly, other focus area has been creation of self-employment through NREGA and SGSY schemes.

Figure 7 explains that there is not a clear pattern on the expenditure front in all studied panchayats. However, it is worth noting that while the panchayats in all study districts have shown a decline in spending over a period from 2006-07 to 2008-09, Sundargarh is the only district with exception. In Sundargarh district, the study panchayats have shown a rise of 56% in expenditure during 2008-09 from

that during 2006-07. This is primarily due to huge spending on pension schemes during 2008-09. (Table 6)



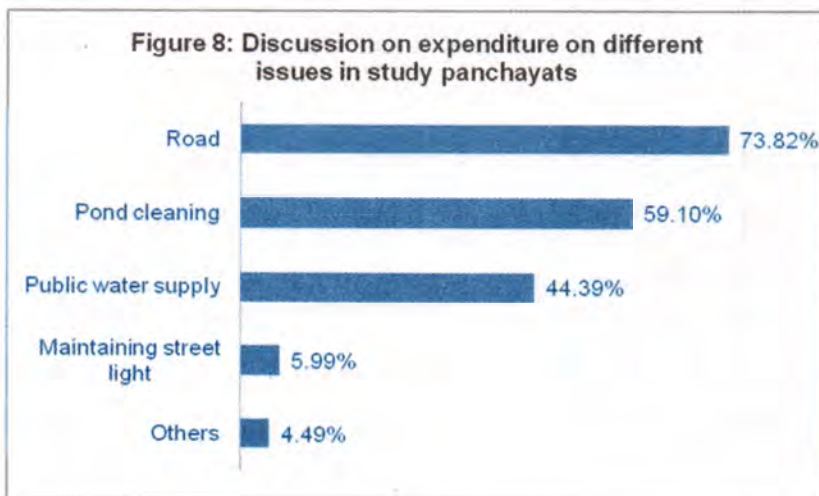
Further, Figure 7 also explains that study panchayats in Kalahandi exhibit a steady decline in their expenditure on various fronts. On the other hand, panchayats in Keonjhar have the lowest expenditure over the three years in comparison to other three study districts.

Besides expenditure on pension, Table 6 also reveals that panchayats in Sundargarh have been spending funds on rural housing. Spending on rural housing is also observed in Kalahandi for 2006-07 and 2007-08. On the contrary, there has been no spending in such welfare schemes in panchayats of Koraput and Keonjhar.

Similarly, while only Sundargarh and Keonjhar have nominal expenditures (Table 6) on development work, it is not found in the other two districts of Kalahandi and Koraput. Further, it may be observed that there has been no effort on part of the panchayats to disaggregate these development expenditures into health, education etc. This entails formulation of separate disaggregated sending heads which will prove beneficial to track progress of human development panchayat-wise. This

process engineering assumes greater significance in the context that PRIs are entrusted with the responsibility of ensuring human development in their respective areas.

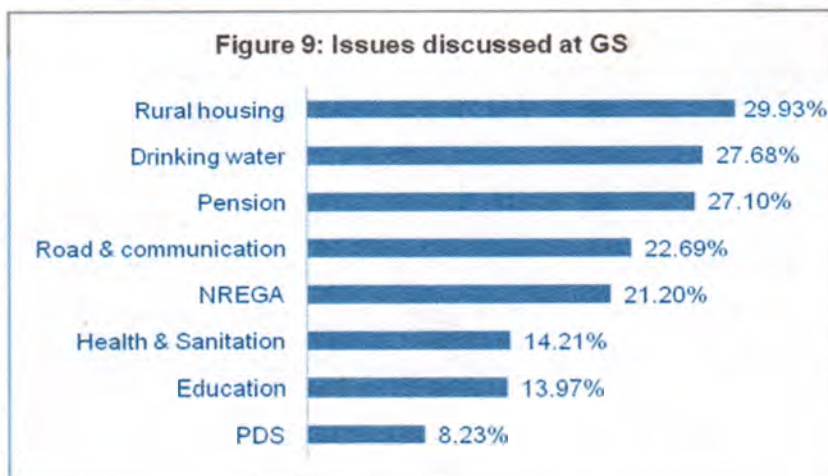
Public response also corroborated poor expenditure on development and welfare programmes as can be observed from Figure 8. According to the people in the study panchayats discussions on expenditures primarily revolve around roads (73.82%) followed by pond cleaning (59.10%) and public water supply (44.39%). As has already been discussed, while road and pond cleaning are infrastructure development and employment generation programmes, expenditure on public water supply is linked to the TFC grants under the head water supply/sanitation.



Considering the above findings it may be presumed that as there has not been any specific grant to the panchayats for development programmes like education and health panchayats are not able to spend on these areas owing to poor internal sources of income. Therefore, steps can be taken to earmark grants for development programmes.

The bias towards expenditure on infrastructure development and employment generation is also reflected in the issues discussed in PS/GS in the study panchayats. As per the Figure 9 while rural housing has been the most discussed issue in the GS, the other major issues discussed are drinking water, pension, road

and communication, and NREGA. Issues relating to health and sanitation, education and PDS get comparatively less importance in the GS discussions.



On the other hand, basic human needs such as provision of drinking water (57.86%), road infrastructure development (52.62%), employment generation through NREGA (51.87%) and welfare measures such as various pension schemes (43.39%) are the major discussed issues in PS in the study panchayats.

Notwithstanding these findings, there are certain other issues of major concern which reinforces the need for making the people aware on their roles and responsibilities towards making panchayats more accountable and thus functioning as effective units of self-governance. Such issues include people's knowledge on panchayat plan or involvement in making such plans; people's knowledge on income of and expenditure by panchayats; and people enquiring about income/expenditure of their panchayats. Table 7 reveals that while a little more than a quarter of the total respondents have knowledge on panchayat plan and also on income of and expenditure by the panchayats, less than a quarter people enquire about the income of/expenses by the panchayats.

## Chapter 4

# Conclusion & Recommendations

### 4.1 Conclusion

Panchayats are now increasingly recognized as institutions determining local development programmes including primary education, health care facilities, drinking water provisioning, infrastructure building such as road and communication, and ensuring social justice at the grassroots level. It is also increasingly felt that PRIs need to have a strong financial base to deliver their responsibilities effectively. There is constitutional provision for setting up of a National Finance Commission (NFC) at the central level and a State Finance Commission (SFC) at the state level to ensure higher flow of grants-in-aid both from central and state level to the PRIs. Also, the PRIs have been empowered with a broad range of tax and non-tax bases as internal sources of revenue generation.

Though Orissa is one of the early states to have PRIs the GPs in particular have been grappled with a narrow tax and non-tax revenue base, thus facing economic and institutional constraints. This, in turn, hampers their efforts towards socio-economic development of their respective areas.

In this context, a timely study undertaken by CYSD to find out the current financial situation in 16 sample panchayats in four districts, such as Kalahandi, Koraput, Keonjhar and Sundargarh finds that the internal sources of revenue generation has not been satisfactory in the study panchayats. Though the Twelfth Finance Commission has released grants-in-aid to the tune of Rs. 3138.62 lakhs during 2006-07 primarily for water supply/sanitation purpose, achievements in other development areas such as education, health, rural housing, pension etc. have not been very encouraging.

The poor internal sources of revenue generation can be attributed to panchayats not emphasizing potential areas of revenue generation like NTFP trading. Despite people of the area suggesting such potential areas panchayats do not pay heed to people's suggestions. On the other hand, the study finds that poor engagement of people in discussion processes relating to developmental needs results in discussions primarily revolving around expenditure relating to road and communication infrastructure building through NREGA and employment generation.

## 4.2 Recommendations

Based on the findings the study recommends the following measures to augment internal sources of revenue generation by the panchayats and effective delivery of responsibilities by the panchayats ensuring development at the grassroots level.

1. The Second SFC Report, Orissa observes that despite the provision appearing to be mandatory the management and control powers over common property resources such as waste lands and communal lands, and protected un-reserved forests do not appear to have been alienated in favour of the GPs. These in turn will expand the internal revenue base of the panchayats, thus augmenting their revenue generation from internal sources.
2. The Second SFC observes that except for a lump sum amount from the existing sairat sources nothing else is transferred to the GPs. Therefore, it is argued that the scope of revenue sharing from tax based sources between the state and the panchayats must be expanded to bolster the revenue of panchayats.
3. There is a need for more awareness generation among people about their roles and responsibilities as active citizenry engaging them in day to day panchayat activities. The areas in which awareness generation is required include people's knowledge on panchayat plan or involvement in making such plans; people's knowledge on income of and expenditure by panchayats; and people enquiring about income/expenditure of their panchayats. This will result in a more vibrant panchayat having strong base for internal sources of revenue generation and also the panchayat will remain accountable to the people.
4. It is deemed necessary to engage the panchayat standing committees in resource generation processes. In other words, there is a need for capacity building of the panchayat standing committee members in understanding their roles and responsibilities in augmenting internal sources of revenue generation.
5. Formulation of separate disaggregated spending heads is recommended which will prove beneficial to track panchayat-wise progress on human development front.



## Annexure

Table 1: List of panchayats covered under the study

District	Block	Gram Panchayat	District	Block	Gram Panchayat
Kalahandi	Bhabanipatna	Chanher	Koraput	Patangi	Chandaka
	Bhabanipatna	Sagada		Patangi	Deopatangi
	Koksara	Rengapali		Koraput	Mastiput
	Koksara	Phupagaon		Koraput	Mahadeiput
	M. Rampur	Urladani	Keonjhar	Sadar	Handibhanga
	Narla	Palam		Sadar	Sirispal
Sundargarh	Scalars	Kinjirma	Ghatagawn	Purumunda	
	Tangarpalli	Meghadega	Ghatagawn	Basantapur	

Table 2: Internal Source of income (in Rs.)

District	Kalahandi			Koraput			Sundargarh			Keonjhar		
Sources	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
Cycle tax	905	747	825	58	75		750	750	750	160	565	750
Other tax	833	667	1167									
NTFP		83	83							151	558	190
Other sources	535	52	121						26815	85	3	8
House rent	1210	1175	320		215	372	1750	1750	3750			
Ghata fees	425	492	392				75	85				
<i>Kanjiahuda</i>	167	167	417				100	100	100			
Income from interest	292	778	1143	71	228	1018			1217	48	71	86
Local <i>haat</i>	3217	3492	3492				4100	5150	2250	255	1623	1538
Pisciculture/Ponds	3755	4475	4475		825	1250	400	634		1757	2851	4498
Nomination fees/Election fees				269						363		
Marriage fees											68	
RTI										20		25
Orchard				125	1250	2500						
<b>Total</b>	<b>11339</b>	<b>12127</b>	<b>12434</b>	<b>522</b>	<b>2593</b>	<b>5140</b>	<b>7175</b>	<b>8469</b>	<b>34882</b>	<b>2838</b>	<b>5737</b>	<b>7094</b>

Source: Secondary information collected from panchayats

Table 3: District wise allotment and expenditure of 12th Finance Commission award during 2006-07 (Up to September, 2007)

District	Financial (Rs. In lakh)										% of Expenditure
	Amount released during 2006-07					Expenditure					
	Water supply/ Sanitation	Data base/ Accounting	Road/ Bridge/ Culvert	PS building	Total	Water supply/ Sanitation	Data base/ Accounting	Road/ Bridge/ Culvert	PS building	Total	
Kalahandi	622.11	8.38	139.70	30.00	800.19	622.11	8.38	139.70	30.00	800.19	100
Keonjhar	656.97	8.38	139.70	20.00	825.05	510.75	8.38	85.67	6.50	611.30	74
Koraput	513.40	8.87	149.08	30.00	701.35	483.64	8.87	130.05	30.00	652.56	93
Sundargarh	599.73	10.08	177.22	25.00	812.03	599.73	10.08	166.80	25.00	801.61	99
Orissa	14408.13	198.52	5000.00	375.00	19981.65	13429.99	186.14	3898.90	319.45	17834.48	89

Source: [http://www.orissapanchayat.gov.in/English/download/TFC/financial\\_TFC.pdf](http://www.orissapanchayat.gov.in/English/download/TFC/financial_TFC.pdf)

Table 4: External source of income of the study panchayats (in Rs.)

District	Kalahandi			Koraput			Keonjhar			Sundargarh		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
TFC	55000	55000	35333	356895	204704	59781	163299	177897	130660	263000	268345	271000
NREGA	1601500	627945	481167	1642234	899609	1059864	584967	591865	476740	1470350	1250350	604006
SGRY				33714	17331							
IAY				79031	61349	6535						
Establishment	50000	33333	33333									
Infrastructure	51667	48333	51000									
Rural housing	87500	62500	128333							139000	87500	210000
Emergency	116667	150000	183333									
Govt. Grant				2880	10469	10469						
Sairat							666	328	1328			
Sarpanch/Naib Sarpanch							2250	1800	5550			
Member Seating Fees							653	2697	3870			
Secretary Salary								1650	3300			
Royalty/MFP								7309	1691			
Entertainment								238	259			
Cess grant								8864	8206			
KL grant								16150	2449	17500	12500	37753
Backward Area Grant					291500							
Biju KBK					250000							
GP Fund				555								
Staff Payment							6600					
Ward Member Seating Fees							1440	2021	1575			
Election Fees							500					
<b>Total</b>	<b>1962333</b>	<b>977112</b>	<b>912500</b>	<b>2115308</b>	<b>1734961</b>	<b>1136649</b>	<b>760374</b>	<b>810818</b>	<b>635628</b>	<b>1889850</b>	<b>1618695</b>	<b>1122759</b>

Source: Secondary information collected from panchayats

**Table 5: District-wise physical achievement under the 12th Finance Commission award during 2006-07  
(upto September, 2007)**

District	Water supply/sanitation (no.)			Road/bridge/culvert (no.)				PS building (no.)		
	Taken up	Completed	Under Progress	Taken up	Completed	Under Progress	Kms. In case of road	Taken up	Completed	Under Progress
Kalahandi	1124	1124	0	58	43	15	11.72	10	10	0
Keonjhar	1075	371	704	14	3	11	9.75	2	0	2
Koraput	497	425	72	17	13	4	8	14	14	0
Sundargarh	11912	11912	0	16	1	15	-	3	3	0
Orissa	58025	54883	3142	669	430	239	348.17	59	49	10

Source: [http://www.orissapanchayat.gov.in/English/download/TFC/physical\\_TFC.pdf](http://www.orissapanchayat.gov.in/English/download/TFC/physical_TFC.pdf)

Table 6: Expenditure pattern in the study panchayats

District	Kalahandi			Koraput			Sundargarh			Keonjhar		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
TFC	205000	205000	35333.33	252478	157922	225492.8	140735	125431	125000	79971.2	28460	1350
NREGA	1270613	638278	746742.2	1629131	785965	891587.5	1404693	1128846	428117	292470.5	1156869	114582.5
SGRY	33333.3	33333.3	33333.3	20958.8	16189.25							
Infrastructure	51666.67	48333.3										
Rural housing	87500	62500					139000	87500	21000			
Emergency (BRGF)	116666.7	150000										
Administrative		5089	6475.3	540	4055.5	4550	65450	19953.5	22470	3606.25	484	3850
Development work							15050.5	17000	19200	107273.3	5300	15000
Pension							222000	222000	2488000			
<b>Total</b>	<b>1764780</b>	<b>1142534</b>	<b>821884.1</b>	<b>1903107</b>	<b>964131.8</b>	<b>1121630</b>	<b>1986929</b>	<b>1600730</b>	<b>3103787</b>	<b>483321.2</b>	<b>1191113</b>	<b>134782.5</b>

Source: Secondary information collected from the panchayats

**Table 7: People's knowledge/involvement in income of/expenditure by study panchayats (as % of total respondents)**

District	Knowledge on panchayat plan	Knowledge on income of/expenditure by panchayats	People enquiring income of/expenses by panchayats
Kalahandi	11.72	14.48	8.28
Koraput	48.48	41.41	54.55
Keonjhar	44.00	27.00	4.00
Sundargarh	24.00	74.00	38.00
<b>Average</b>	<b>30.71</b>	<b>31.98</b>	<b>22.59</b>

Source: Primary survey

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This report reflects on the issues related to the Gram Panchayat finance at the grass root level. It examines various sources of revenues generated by the panchayats, extent of utilization & beneficiaries in different development programs. Moreover, it looks at the roles, responsibilities as well as potential & capabilities of the Gram Panchayats to generate revenues from external as well as internal sources to strengthen the fiscal scenario and autonomy of the Panchayats in four tribal districts of Keonjhar, Koraput, Kalahandi & Sundargarh.



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