UTILIZATION OF FOURTEENTH FINANCE COMMISSION GRANT BY GRAM PANCHAYATS: A CASE STUDY FROM ASSAM

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ABSTRACT

Provision of basic services to its constituents is the core and traditional responsibility of local governments including Gram Panchayat. Quality of life of rural population depends on a large extent to the efficacy of such provisioning by Gram Panchayats. However, Gram Panchayats have been facing resource crunch as most of the Gram Panchayats were unable or unwilling to raise their own resources whereas State and Central governments did not provide enough funds for such services. And hence a vicious cycle of inadequate funds leading to lack of basic services in turn leading to unwillingness on the part of rural household to pay taxes and fees to Gram Panchayats has emerged. To get out of this vicious cycle, Fourteenth Finance Commission (FFC) has awarded a substantial funds to Gram Panchayats for basic services and has also made provision of incentives to Gram Panchayats who maintain their accounts well and increase their own source revenue.

More than half of the FFC award period has passed. A new Fifteenth Finance Commission under the Chairpersonship of Shri N.K. Singh has been constituted. This is right time to take stock of the utilisation of FFC grants by the Gram Panchayats. This paper is based on a visit to Assam to observe and understand the utilisation of FFC grants and to recommend ways to improve its implementation. First section of this paper describes constitutional provisions for setting up of Finance Commission. Second section deals with the Fourteenth Finance Commission, all India allocation of funds and allocation and releases to the State of Assam under FFC. In the third section of this paper key observations of study team is given. In the last section recommendations and suggestions for improving utilization of FFC grants is given.

Key words-
Rural Development, FFC, Agricultural development, Management, Utilization. Commission

Introduction-

Article 280 of the Constitution of India provides for a constituting a Finance Commission as a quasi-judicial body. It is constituted by the President of India every fifth year or at such earlier time as he considers necessary. The parliament of India has prescribed the following qualifications for the members of the finance commission: (1) He must to be a citizen of India; (2) He should be qualified to be judge to a High Court, or (3) He should have special knowledge of the finance and accounts of the government, or (4) He should have wide experience in the financial matters and in administration, or (5) He should have special knowledge of economics. Article 280 of the Constitution of India has fixed the total strength of the Finance Commission by specifying that it should consist of a chairman and four other members. They are appointed by the President of India, and they hold office for such period as specified by the President in his order. They are eligible for reappointment. The term of office, salary and allowances,
conditions of service of the chairman and other members or the commission base determined by the president from time to time.

The Finance Commission makes recommendations to the president with regard to: (a) The distribution of the proceeds of taxes between the union and the states; (b) The principles which should govern the grants-in-aid to be given to the states; (c) Any other matter referred to the Commission by the President in the interest of sound finance. The recommendations of the commission are generally accepted by the Union Government as well as by the parliament. So far, fourteen Finance Commissions have been constituted.

Fourteenth Finance Commission (FFC):-

FFC was constituted by the President of India on 2nd January 2013 under the chairmanship of Dr. Y.V. Reddy (Ex RBI Governor), Prof. Abhijit Sen, Ms. Sushma Nath, Dr. M. Govinda Rao, Dr. Sudipto Mundala as Members and Mr. AN Jha as Member Secretary. The Commission was supposed to make its report available by the 31st October, 2014, covering a period of five years commencing on the 1st April, 2015. FFC submitted its report on 15th of December 2014. The FFC was, inter-alia, mandated to recommend measures needed to augment the consolidated Funds of the State to supplement the resources of the Panchayats and Municipalities based on the recommendations of the respective State Finance Commissions (SFCs). Government of India accepted the recommendations of the FFC.

Table 1: Allocation to States during the FFC Award Period (2015-2020)

<table>
<thead>
<tr>
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<td>934.34</td>
<td>1,463.45</td>
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<td>819.93</td>
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<td>1,218.82</td>
<td>1,641.19</td>
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<td>4,729.38</td>
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<td>5</td>
<td>Chhattisgarh</td>
<td>566.18</td>
<td>886.82</td>
<td>1,022.11</td>
<td>1,180.02</td>
<td>1,588.94</td>
<td>5,244.07</td>
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<tr>
<td>6</td>
<td>Goa</td>
<td>14.44</td>
<td>22.62</td>
<td>26.07</td>
<td>30.10</td>
<td>40.53</td>
<td>133.76</td>
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<td>7</td>
<td>Gujarat</td>
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<td>1,683.08</td>
<td>1,942.96</td>
<td>2,616.26</td>
<td>8,634.73</td>
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<td>8</td>
<td>Haryana</td>
<td>419.28</td>
<td>656.72</td>
<td>756.98</td>
<td>873.86</td>
<td>1,176.68</td>
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<td>9</td>
<td>Himachal Pradesh</td>
<td>195.39</td>
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<td>407.24</td>
<td>548.36</td>
<td>1,809.80</td>
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<td>10</td>
<td>Jammu &amp; Kashmir</td>
<td>373.96</td>
<td>585.73</td>
<td>675.15</td>
<td>779.40</td>
<td>1,049.49</td>
<td>3,463.73</td>
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<td>11</td>
<td>Jharkhand</td>
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<td>1,022.53</td>
<td>1,178.63</td>
<td>1,360.62</td>
<td>1,832.12</td>
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<td>2,090.10</td>
<td>2,814.39</td>
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<td>Kerala</td>
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<td>679.40</td>
<td>783.12</td>
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<td>Sikkim</td>
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<td>25.11</td>
<td>28.95</td>
<td>33.41</td>
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<td>75.53</td>
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<td>335.67</td>
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<td>Uttarakhand</td>
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<td>26</td>
<td>West Bengal</td>
<td>1,532.21</td>
<td>2,399.91</td>
<td>2,766.26</td>
<td>3,193.39</td>
<td>4,300.01</td>
<td>14,191.78</td>
</tr>
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</table>

| All India Level | 21,624.46 | 33,870.52 | 39,040.90 | 45,069.16 | 60,687.13 | 200,292.17 |


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FFC, for the award period 2015-20, has devolved an amount of Rs. 2,00,292.20 crore to Gram Panchayats (GPs) constituted under Part IX of the Constitution which is threefold increase over the grants of Rs.65160.76 crore recommended by Thirteenth Finance Commission for the award period 2010-15 for all levels of PRIs. 90 percent of these Grants are Basic Grants and 10 percent are Performance Grant (applicable from 2016-17). Performance grants will be given to GPs who increase their own source revenue and get their accounts audited. Performance grants are designed to serve the purpose of ensuring reliable audited accounts and data of receipt and expenditure and improvement in own revenues. FFC has recommended that books of accounts prepared by the local bodies should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency functions assigned by the Union and State Governments.

The Commission has recommended grants for Gram Panchayats as they are directly responsible for delivery of basic services without any share for other levels. The allocated grants are released to various States by Ministry of Finance (Department of Expenditure) (MoF) in accordance with the guidelines issued by that Ministry on 8\textsuperscript{th} October 2015. The grants are distributed to Gram Panchayats as per the approved formula recommended in the latest State Finance Commission (SFC) Report. However, in the absence of SFC formula, grant should be distributed using population of 2011 Census with a weight of 90\% and area with a weight of 10\%. For example, the 5\textsuperscript{th} SFC criteria used in Assam has the weightage factor of population: 50\%, Area: 25\% and per capita income 25\% at district level and for Gram Panchayats as 30:30:40. In case of Jharkhand, the basic grant is distributed to local bodies as per guidelines of Fourteenth Central Finance Commission, namely 90\% weight for population and 10\% weight for area.

The grant provided are intended to be used to support and strengthen the delivery of basic services including water supply, sanitation including septic management, sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street-lighting, burial and cremation grounds and any other basic service within the functions assigned to Gram Panchayats under relevant legislations. Grants are released by MoF in two instalments, in June and October every fiscal year. While the 50\% of the basic grant for the year is released to the State as the first instalment of the year, the remaining basic grant and the full performance grant for the year is released as the second instalment for the year. MoF has already released over Rs.60,000 crores to the GPs of the States for the financial years 2015-16 to 2017-18 so far. FFC has not distinguished between operations & maintenance (O&M) and capital expenditure but the Ministry of Finance has advised that the cost of technical and administrative support towards O&M and capital expenditure should not exceed 10\% of the allocation to a GP. MoF has advised that all expenditure incurred by Panchayats on basic services within the functions devolved to them under the State laws may be incurred after proper plans are prepared by Panchayats. Later the Ministry of Panchayati Raj has issued a model guidelines for preparation of Gram Panchayat Development Plans (GPDP) and all 26 States covered under Part IX of Indian Constitution has issued their State specific guidelines.

Comptroller and Auditor General (C&AG) may conduct audit of expenditure in selected Panchayats. In addition, State Governments may also get audit done through Local Fund Audit or through empanelled Chartered Accountants. The publishing of service level data and audit of accounts will provide the necessary transparency and accountability in utilisation of FFC grants. FFC has recommended that stern action should be ensured if irregularities in the application of funds are noticed or pointed out, for the prevention of which appropriate third party audit mechanism may be put in place by March, 2017. MoF has advised States to constitute a High Level Monitoring Committee headed by the

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Chief Secretary and including the Finance Secretary and other concerned departmental Secretaries to monitor and carry out concurrent evaluation of the local bodies receiving the grants to ensure that funds are utilized for the purpose recommended by the FFC.

Table 2: Allocation and releases under FFC to Assam during 2015- 2017  

(Rs. in crore)

<table>
<thead>
<tr>
<th>Component of Grant</th>
<th>Allocation &amp; Release</th>
<th>2015-16</th>
<th>2016-17 (as on 02 August 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Allocation</td>
<td>Release</td>
<td>Allocation</td>
</tr>
<tr>
<td>Basic Grant</td>
<td>584.80</td>
<td>584.80</td>
<td>809.76</td>
</tr>
<tr>
<td>Performance Grant</td>
<td>0.00</td>
<td>--</td>
<td>106.22</td>
</tr>
<tr>
<td>Total</td>
<td>584.80</td>
<td>584.80</td>
<td>915.98</td>
</tr>
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</table>

(Source: Ministry of Panchayati Raj, Govt. of India)

Field Experiences:-

Author visited Assam in the month of August 2017 as part of a national team to study to understand the utilisation of FFC grants by States and interacted with various stakeholders and visited a couple of Gram Panchayats in both the States. The team visited Gobardhana and Bajali Blocks from Barpeta and Nazira and Sonari Blocks from Sivsagar District. Bandhasidhani GP from Bajali Block, and PaschimHowly GP from Gobardhan Block of Barpeta District, Rajpukhri GP from Sonari Block and Joymoti GP from Nazira Block of Sivsagar District were covered under the study. The team members interacted with the District level officials, CEO of Zila Parishad, BDOs, GP heads, secretary and other officials associated with the implementation of the 14th Finance Commission fund in the State. Following are the key observations of these visits:

A. State level Preparation and Planning-

The State has formulated detailed guidelines for the preparation of the GPDP. The guidelines contain 14 step measures for the preparation of the GPDP. These include awareness generation, data collection, GS meeting, approval of the GS proposal, etc. The SIRD and its 12 extension centres, have trained about 90000 resource persons across the State who provided technical support in the preparation of GPDP in the State. These resource persons help in awareness generation, resource mapping, organizing of the GS, etc. The State prepares GPDP in a mission mode. For example, in 2017, a month long mission mode programme was carried out between the 12th May and the 12th June 2017. The RD and PR Department of the State coordinates the entire activities. The state monitors each and every step of the preparation of the GPDP.

B. Release of fund-

The State Government delayed the release of the first installment of 2015-16 by about six months. It was received by the State Government in the month of August 2015 and was released in the month of February 2016. The District received the 1st installment on 2nd of February 2016 and the 2nd installment on the 10th of August 2017. Because of the delayed release in the first installment, the Centre did not release the II nd installment until the State paid the penalty. The State paid a penalty of Rs
10 crore, which were distributed to GPS, as per the guidelines of the MOPR. The State got the II\textsuperscript{nd} installment and the same was released within the stipulated time.

Because of the delayed release of the II\textsuperscript{nd} installment, none of the schemes selected and approved under the II\textsuperscript{nd} installment were implemented, although they had been given technical and administrative sanctions. Moreover, there is a spillover effect. The work of 2017-18 is also delayed. Some of the villagers were not ready to buy this idea that the Centre had not released the money. They were suspicious of the local officials.

C. Utilization of fund-

The state has already utilized the first installment of basic grants of 2015-16. The II\textsuperscript{nd} installment of 2015-16 was released only in the month of August, 2017. The state was ready with the schemes/works with due technical and administrative sanctions which are to be executed based on the release of the II\textsuperscript{nd} installment. The state has received the II\textsuperscript{nd} installment and the process of transferring of the money to the GPs had began by the time the team was in the field.

The state has received the first installment of the performance grant of 2016-17. It has prepared a guidelines for the utilization of performance grant. As per the Guidelines, a GP that increases its own revenue by 10% over the last year figure, becomes eligible for the receiving performance grants. Accordingly, out of 2200 GPs in the state, 1455 have become eligible for receiving performance grant. The state is yet to release performance grants.

C 1. Preparation of participatory GPDP-

The GPDPs in the state have been prepared in participatory manner. The process of participatory planning adopted by the State is worth emulating by other states. The GPDP contains Gaon Panchayat profile, Panchayat sitting proceedings, GPDP committee details, draft GPDP, Gram Sabha sitting proceedings, draft plan, annual action plan, estimates, etc. The preparation of GPDP is done in a mission mode approach following a 14 step measures, as they have been outlined in the guidelines. The resource persons trained by the SIRD play critical role in the preparation of the GPDP, especially in organizing of the various meetings and mapping of the resources. The SIRD in the State has trained about 90000 resource persons who help in the process. The GPDP also contains schemes to be undertaken under different other programmes. There is a reflection of convergence in the GPDP.

People’s participation in the preparation of GPDP is appreciable. Because of mobilization efforts, there has been an increase in the number of people who attend Gram Sabha meetings. The documents and pictures shown to the team suggest that about 200-300 people participated in the Gram Sabha. While this number is still less, yet for the first time, there has been such a large participation of people in the Gram Sabha. It has also been observed that the attendance in the Gram Sabah has gradually increased.

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C 2. Selection of works/schemes-

While the works are selected through Gram Sabhas, the types of works which have been selected pertain mostly related to connectivity, boundary wall, shop, market shed, etc. For example, in Jyomoti GP of Nazira Block of Sivasagar Districts, out of 10 works completed in 2015-16, six were related to connectivity; two were related to boundary wall and embankment; one was related to open stage; and only one was related to water supply i.e. basic services. In Rajapukhuri GP of Sonari Development Block of Sivasagar Districts, out of 8 works completed in 2015-16, 3 were related to construction and maintenance of road, two were market shed, one RCC culvert, one was related to water supply and another one under which 100 IHHL (toilets) were constructed. In Bandhasandhani GP of Bajali Block of Barpeta district, five works were undertaken which included road construction, repair of water distribution, drainage, pucca dustbin, solar street lights installation, skill development centres, piggery unit for income generation. In PaschimHowly GP of Govardhana Block of Barpeta District, six works were undertaken which included computer training centers, shopping sheds, boundary wall and land development of a burial ground.

Except Bandhasidhani GP of Bajali Block of Barpeta district, where most of the works were related to basic services, in other three GPs, other works were given priority. In Dabalipara GP of Bhawanipur Block of Barpeta districts, it was told that the entire amount of RS.16, 58,622 was spent on construction of a GP building.

The state has selected a large number of road construction works using the FFC fund. In terms of total works undertaken in the State, road and connectivity takes the second largest share. Certainly, due to flood prone area, there is a need for road and connectivity. But the amount of money allocated under the FFC is inadequate to address the shortage of road. Moreover, other pressing necessities like drinking water, sanitation, drainage, etc. are equally pressing. Also, road construction is high capital intensive. There are other schemes, say MGNREGS under which the scheme of connectivity can be undertaken. In such a situation, it is desirable that the limited resources available under the FFC should be used for the purpose they are meant for.

Although the shortage of GP buildings in the State is acute, as out of 2200 GPs, 314 are without building and 741 have dilapidated buildings. Moreover, the State has planned to carve out 1000 more GPs keeping in mind increase in population; the issue needs to be addressed. IN other words, the State would need about 2000 GP building in near future.

While works were selected by the Gram Sabha, a large number of these works were outside the purview of basic services. The guidelines of the 14th Finance Commission (Para 7) recommend that basic grants under the 14th Finance Commission are provided for services like water supply, sanitation, sewage and solid waste management, storm water drainage, maintenance of community assets like roads, footpaths, burial and cremation grounds, etc.

It seems that the GP has not been adequately made aware of the guidelines of the 14th Finance Commission.
C.3 Convergence-

The idea of GPDP is to prepare a comprehensive development plan under GP converging resources from various sources. The GPDP contains the list of works to be undertaken using the 14th Finance Commission and other sources. In practice works are not converged in true spirit. For example, many of the roads constructed under 14th Finance Commission could have been suitable done in convergence with the MGNREGAs. The kuccha (earth) works of the road should have been undertaken under MGNREGAs and topping should have been done using 14th Finance Commission that too only if utmost necessary. Also construction of market shed and shops should not have been given priority as these GPs are deprived of basic amenities. Since, a large part of Assam is flood prone, ground water contains arsenic and there is problem of drainage and sanitation, it is of utmost importance that 14th FFC fund should be utilized for providing basic services like drinking water, drainage, etc.

C.4 Capacities of the GPs-

GPs in Assam are provided one panchayat secretary, one peon and three tax collectors with the support of the state government resources. They are appointed by the state government and their salaries and perks are paid by the state government. Then, there are Gram RozgarSevaks under MGNREGAs and account cum computer operator (ACO) under 14th FFC. A major problem with GPs is shortage of panchayat secretaries and tax collectors. For example, 90% of the posts of tax collector in the state are vacant. One panchayat secretary is looking after 2-3 GPs.

GPs in the state face great difficulty in using plan plus software because of lack of internet facility. Only 50% of the GP have internet facility in the state. The capacity building of the GP staff is done by the SIRD and its extension centers. For example, SIRD has provided training to ACOs, panchayat secretaries etc. from time to time.

The state government informed the team that it has started a process of filling up vacancies of panchayat secretaries, tax collectors and other staffs at the GP levels. It also informed that it has decided to provide internet connectivity to all the GPs under a time bound programme. A state government has started a process of consulting internet service providers undertaking this huge task.

C.5. Resource Mobilization-

A GP in Assam gets fund from (i) State Finance Commission, (ii) 14th Finance Commission, (iii) Funds under District Development Fund, (iv) Funds under Centrally sponsored scheme, (v) share of market tax devolved by the IP and ZP, (vi) Tax and other revenues generated by Panchayats. Resource Mobilization by a GP in the State is less than the existing potentiality. GPs in the state collects tax from shops, hawkers and by leasing out of community assets like ponds, community halls, market sheds, etc. Earlier the GP was collecting cycle tax. GP in the state can further enhance its resources by collect house tax and water tax, etc. It seems that a proper awareness about the possible sources of revenues and the power of the GP to collect taxes is lacking.
C.6. Audit, Accounts and Up-keep of records-

The utilization of the State Finance Commission Grants is audited by the AG (Audit) Assam. The state has made a provision for empanelment of Charted Accountants, Auditors at district levels for general auditing of the accounts of the GP. There is a state level guideline that each GP will get its accounts audited by the any of the empaneled CAs/Auditors.

The state has not completed the auditing of the utilization of the FFC till the visit period. It is understood that since, only first installment of 2015-16 was released and utilized, the audit would be incomplete without utilization of the IInd installment.

The visited GPs have maintained their accounts properly. The team chacked cash register, bank passbooks, vouchers and found them in order. The GP in the State has an account for the 13th FC, which has become redundant.

D. Recommendations and Suggestions:-

D.1 Selection of types of works-

As per para 7 of the guidelines of the 14th Finance Commission which recommends that basic grants under the 14th Finance Commission are provided for services like water supply, sanitation, sewage and solid waste management, storm water drainage, maintenance of community assets like roads, footpaths, burial and cremation grounds, etc. The selection of the works needs to be based on the guidelines.

It seems that the GP has not been made adequately aware of the guidelines of the 14th Finance Commission. It is suggested that they should be made aware of the guidelines and should also be made aware of the fact that the State lacks in basic facilities like safe drinking water, sanitation and hygiene, solid waste management facilities and lighting of the streets for which the FFC grants are meant.

For example, Assam has acute problem of safe drinking water as it contains high concentration of arsenic. As such GPs should focus to provide safe drinking water, which is not contaminated and arsenic free. Similarly, GP should also focus on providing proper drainage, sewage and solid waste management system which is almost absent in GPs. This is all the important as the state is flood prone.

D.2 Convergence-

The benefits of convergence are to be conveyed to the GPs. For example, many of the roads constructed under 14th Finance Commission could have been constructed under the MGNREGS. The kucccha works of the road should have been undertaken under MGNREGS and topping should have been done using the 14th Finance Commission fund, if necessary. A large part of the funds under the 14th FFC are utilized for construction works like roads, market sheds, community centers, boundary walls, etc. These assets are, no doubt, useful. But they could have been constructed in convergence with other
programmes. The limited fund available under the FFC should not be exhausted in the construction of capital intensive assets.

D.3 Resource Mobilization-

GP's in the State have potentialities to increase resource mobilization. At present, GPs in the state collects tax from shops, hawkers and by leasing out of community assets like ponds, community halls, market sheds, etc. Earlier the GP was collecting cycle tax. GP in the state does not collect house and water tax, collected by GPs in many other states. GPs can impose tax based on facilities like drinking water, proper drainage and sanitation, lighting of lamps, etc. provided by the GPS.

D.4 Shortage of GP Buildings-

The shortage of GP buildings in the State is acute, as out of 2200 GPs, 314 are without building and 741 have dilapidated buildings. Moreover, the State has planned to carve out 1000 more GPs keeping in mind increase in population. In other words, the State would need about 2000 GP building in near future.

D.5 Internet connectivity-

The State has initiated a process of providing internet to all the GPs. Until it is done some quick solution should be found out to provide connectivity to GPs, as they face great difficulty in uploading Plan plus and using other net based services.

D.6. Merger of accounts-

GP's in the State maintain five to six accounts. It only increases the operational difficulties. It is suggested that all the accounts of GPs should be merged into one account and GPs may be asked to maintain separate heads under which they receive money. The usefulness of a GP having separate account for the state Finance commission, 13th FC and 14th FC is perhaps needed to be examined.

To conclude the paper, we have seen that while FFC grants have led to a renewed thrust to participatory processes including decentralized participatory planning in the State and also creation of useful community assets, more attention needs to be made to selection of works, convergence of human and financial resources and to own source revenue mobilization by Gram Panchayats in Assam to not only improve the efficacy of utilization of FFC grants but to make the bottom up development process more sustainable and self-reliant. While some of these observations may be specific to Assam, many of these observations and recommendations may be useful for policy makers and policy implementers of other States.

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References


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