

State Finance Commission And Devolution Of Funds To Village Council In Mizoram: Introspection

David Zothansanga¹ & R Lalremthanga²

¹Associate Professor, Public Administration Department, Pachhunga University College, Mizoram, India

²Research Scholar, Public Administration Department, Mizoram University, Mizoram, India

How to cite this article: David Zothansanga, R Lalremthanga (2024) State Finance Commission And Devolution Of Funds To Village Council In Mizoram: Introspection. *Library Progress International*, 44(3), 10089-10096.

ABSTRACT

The significance of Local Self-Governance is a crucial tool for achieving participation, which is a fundamental aspect of good governance. The characteristics of good governance can be realized through effective LSG (Local Self-Government) institutions, particularly through the provision's implementation outlined in the 73rd Constitutional Amendment 1992. This paper highlights the importance of financial aid for local bodies, through the SFC (State Finance Commission) which plays a vital role in supporting LSG by facilitating the allocation of funds from State resources. The paper mainly focuses on the recommendations of the Second MSFC (Mizoram State Finance Commission) aimed at enhancing the financial capabilities of Village Councils (VCs).

Keywords: *Local Self Government, Village Council, Mizoram State Finance Commission, Autonomous District Council*

INTRODUCTION

LSG is the administration of local matters by local bodies that are elected by the local people. LSG which involves both urban and rural governance is the third level of government (after Union & State) in India. In India, there are two kinds of local government: Panchayat in rural areas, and Municipalities in urban areas. Initially, the Constitution of India did not provide for a constitutional provision or status for LSG. The importance of LSG has been highlighted by the various committees and recommendations made by them over the years. The number of such committees has shown the importance of the LSG and they are as follows: Balwant Rai Mehta committee in 1957; Ashok Mehta committee in 1977; LM Singhvi committee in 1986; G.V. Rao committee in 1986; Thungon committee in 1988 and Gadgil committee in 1988. Though, all the suggestions as well as recommendations of all these committees on LSG achieved constitutional status when the Government of P.V. Narasimha Rao adopted the 'Panchayati Raj Institutional Bill' (73rd Constitution Amendment Act 1992) on April 24, 1993, and 'Municipalities Bill' or 'Urban Local Government Bill' (74th Constitution Amendment Act 1992) which entered into force on June 1, 1993.

The 73rd Amendment Act proposed the formation of a 3-tier system of LSG in India. This system includes Gram Panchayats at the village level, Panchayat Samity at the intermediate / block level, and Zilla Parishad at the level of the district. These LSG bodies are democratically elected through periodic elections held every five years. One of the key provisions of the 73rd Amendment Act is the reservation of 1/3 of seats for SC, ST, and Women in the local government bodies. This move aims to empower and provide representation to marginalized sections of society in the decision-making procedure at the grassroots level. To strengthen the financial autonomy of the local bodies, the Act established a State Finance Commission (SFC) to recommend financial powers to the Panchayats. Additionally, it set up a District Planning Committee tasked with preparing development plans for the district, ensuring inclusive and sustainable growth. In order to ensure fair and transparent elections to the local bodies, the 73rd Amendment Act established a State Election Commission. This commission is responsible for supervising, directing, and controlling the electoral process, guaranteeing the smooth conduct of elections at the local level. The 73rd Amendment Act marked a significant milestone in the local government evolution in India, transforming

the country into a federal and democratic nation. From the ancient VCs to the modern Panchayats along with the urban local bodies, India's local government system has undergone substantial reforms and changes to become more inclusive and responsive to the needs of its citizens.

MIZORAM STATE FINANCE COMMISSION

The 73rd Amendment Act (Article 243-I and 243-Y) of the Constitution provides for the creation of the SFC every 5 years. The primary objective of the Commission was to have a thorough analysis of the revenue shortfalls of local authorities, to determine the size of the divisible resource, and to devise an appropriate system of devolution which reconciled the local bodies requirements with the huge revenue expenditure liabilities of the State. As per the provision of the 73rd Amendment Act, Mizoram State Government has also established a State Finance Commission. The First MSFC, formed on 30th September 2011, was chaired by Mr. Lalmalsawma, the then Chief Secretary of Mizoram, with Mr. Lalthansanga serving as the member secretary. The commission commenced its operations on November 11, 2011, and presented its reports to the Mizoram Governor on February 19, 2015. On the other hand, the 2nd MFSC was constituted on April 18, 2021, from 2021-2022 to 2025-26. Initially, Mr. Lalthansanga was appointed as the Chairman and Mr. Vanlalruata as Member Secretary, however, due to health reasons, Mr. Lalthansanga could not join the Commission, leading to the reappointment of Mr. Vanlalruata as the Chairman along with Mr. Lalmalsawma as the Member Secretary before. The Commission began its operation on October 1, 2021, and submitted its report to the Mizoram Governor on July 20, 2023.

VILLAGE COUNCILS IN MIZORAM

In the wake of India's independence, Mizoram saw the establishment of a democratic local governance system. The Constitution of India's 6th Schedule paved the way for the formation of the Lushai Hills District Council in 1952, marking the beginning of a new era in local administration. This was soon followed by the formation of "VCs" which aimed to replace the traditional chieftainship. The introduction of VC in 1953 marked a significant shift towards more effective governance at the grassroots level. The Lushai Hills District (VC) Act (1953) laid the foundation for a system that continues to evolve and adapt to the changing needs of the community. Over the years, the VC system has seen enhancements in powers and functions, allowing it to better serve the interests of the local populace.

In 1972, the Mizo District Council underwent a significant transformation when it was granted the status of a UT, separating from the State of Assam. This resulted in the division of Mizoram into 3 distinct administrative districts: Lunglei, Aizawl, and Chhimitupui. Additionally, the Pawi Lakher Regional Council was restructured and became known as the Lakher, Pawi, and Chakma Autonomous District Council within the "Chhimitupui Administrative District. Following the Mizo District Council dissolution, the Dissolution of Mizo District Council (Miscellaneous Provisions) Order, 1972 came into effect to ensure the continuity of certain laws and regulations. Among these were the Lushai Hills (VC) Act, 1953, and the Administration of Justice Rules, 1954". In 1987, Mizoram was granted full statehood, and the pre-existing administrative districts remained unaltered, along with the village administrative system. The 73rd Constitutional Amendment Act changes the local government system across India and aims to promote grassroots democracy for effective governance and growth. Nevertheless, the state of Mizoram was especially removed from the amendment's provisions, resulting in a substantial preservation of its local government system from the era of post-independence. In spite of this, some amendments have been made to local government laws to keep up with the varying demands of administration as well as decentralization.

PROFILE OF VILLAGE COUNCILS

Table 1 shows that in Mizoram, there is a vast network of Village Councils (VCs) that play a crucial role in local governance. According to the Second MSFC Report published in July 2023, a total of 533 VCs with 2204 elected seats were formed by the Government of State under the "provisions of the Lushai Hills District (VC) Act, 1953 as amended. Additionally, the three Autonomous District Councils, namely the Lai Autonomous District Council (Village Council) Act, 2010; the Chakma Autonomous District Council (VC) Act, 2003, and the Mara

Autonomous District Council (VC) Act, 1974, have established a total of 284 VCs with 1472 elected seats. It is worth noting that the State Government's Urban Development along with the Poverty Alleviation Department” has identified 24 villages within Lunglei Town to be included in the Lunglei Municipal Area. This decision has led to a reduction in the number of VCs in the Lunglei district from 113-89. This move highlights the dynamic nature of village governance in Mizoram and how urban development initiatives can impact the structure of Village Councils.

Table 1: Profile of Village Councils					
Sl No	District	No Village Councils	No Elected seats	Non-Municipal Population(census 2011)	Non-Municipal area(sq.km)
1	Kolasib	56	168	83955	1586.39
2	Aizawl	69	306	74015	1981.05
3.	Mamit	90	391	86364	3009.94
4.	Champhai	62	282	71916	1564.46
5	Hnahthial	32`	132	28488	1029.56
6.	Khawzawl	38	158	36870	1164.93
7	Saitual	44	188	50591	1757.34
8	Lunglei	89	339	74725	3366.99
9.	“Serchhip	54	240	65387	1466.78
	A.Sub- a total of Nine Districts	533	2204	572311	16927.44
10	Lawngtlai				
	LADC*	97	525	72587	1781.64
	CADC#	88	491	45307	677.00
11	Siaha				
	MADC^	99	456	56574	1519.21
	B. Subtotal of two districts in ADC@ areas	284	1472	174468	3977.85”
	Grand Total (A+B)	817	3676	746779	20905.29

Note: *LADC: Lai Autonomous District Council
 #CADC: Chakma Autonomous District Council
 ^MADC: Mara Autonomous District Council
 @ADC: Autonomous District Council

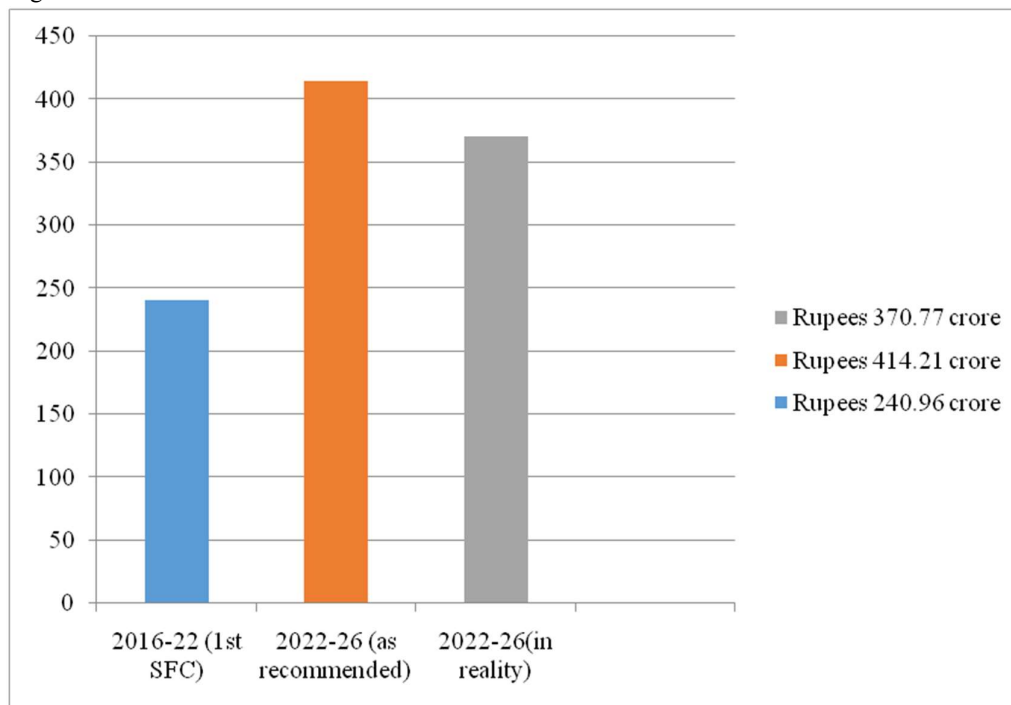
Source: Second MSFC Report, Government of Mizoram 2023

i. Issues on Devolution of Funds to Village Councils in Mizoram

Village Councils in Mizoram, at the front line of governance for two-thirds of the State’s population, will get at least 10% less than what they could have gotten because of two things related to the way the state government has accepted the recommendations of the 2ndMFSC. Firstly, the State Government has not accepted the Commission’s recommendations regarding LAD frame rules under a 1953 law governing VCs in which they were permitted to collect property tax in their respective jurisdictions. Secondly, the State Government while accepting recommendations related to devolving 42% of the State’s Own Tax Revenues, says this will only be applicable from 2024-25 onwards(means that it will not have retrospective effect). In other words, the VCs will be getting just over half of the roughly Rupees 82 crores the Commission had recommended be devolved to them

between 2022-26.

In Mizoram, VCs are the RLBs (Rural Local Bodies) in the absence of Panchayati Raj Institutions. However, the 14th Finance Commission did not recommend the devolution of Union Government Funds to RLBs outside Part IX and IXA of the Constitution, which led to them getting nothing from the Union Government except a one-time grant for five years straight. But the 15th Finance Commission changed things and started getting devolution grants again in 2020-21.



Source: Second MSFC Report, Government of Mizoram 2023

ii. Funds Received by Village Councils from (First MSFC) 2016-22:

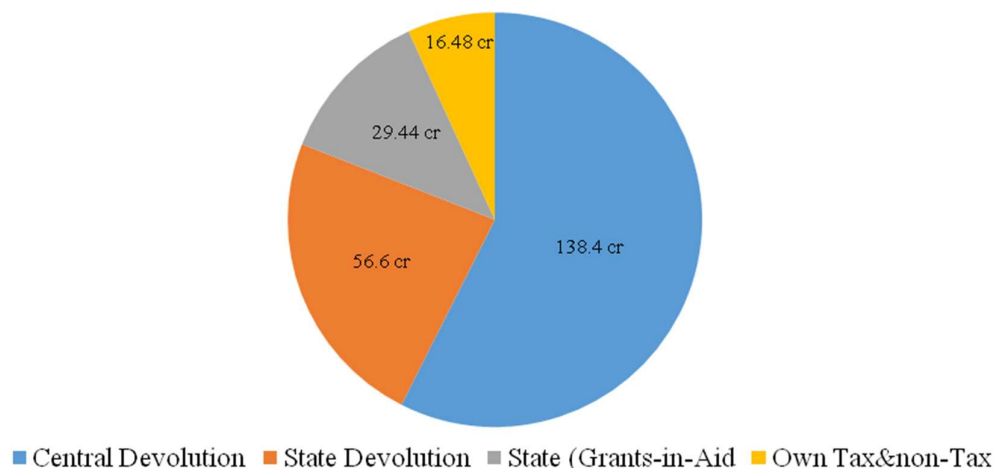
Village Councils have received financial aid from different sources, from the fiscal year 2016-2022 they have received Rupees 138.4 crore from Central Devolution of taxes, Rupees 56.6 crore from State Devolution of taxes, Rupees 29.44 crore from State (Grants-in-aid) and Rupees 16.48 crore from State Own tax & Non-Tax revenues. But this money is unlikely to meet all the VC's expenses in carrying out their powers and functions, which stem from as many as four laws and three rules and which include as many as 23 executive, five judicial, and seven financial functions. Some of the important functions of VC's are listed below:

Table 2: Important Functions of Village Councils		
Executive Functions	Judicial Functions	Financial Functions
Allocation of land for jhum cultivation	the Village Council Court holds the authority to provide justice in both Civil and Criminal cases involving parties belonging to Scheduled Tribes within its jurisdiction.	the VC is authorized to collect an annual animal tax of Rs. 50 (Rupees fifty) as per the rules of the Local Administration Department, Government of Mizoram
Creation or setting up of link road to Jhum field	Civil cases encompass a range of civil and miscellaneous matters governed by village or tribal laws and customs	VC can also impose a fine of Rs. 25 (Rupees twenty-five) from individuals who do not participate in voluntary community works, in the form of "Run" and "Pha," respectively.

Demarcation of boundary lines between one or more jhum fields	Criminal cases pertain to offenses within the scope of tribal laws and customs, including minor infractions such as pilfering, petty theft, trespass, mischief, hurt, simple assault, affray, affront, drunken or disorderly behavior, public nuisance, and wrongful restraint cases. These offenses are considered relatively trivial in nature and are dealt with by the Village Council Court	They have also been permitted to gather property taxes as directed by the government of the state; to get registration fees for every lawsuit falling within its purview; and to raise money for public utilities in its purview by adopting a resolution that is subject to State government approval.
Repairing/clearing roads connecting settlements	the Village Council Court holds the power to impose a fine of Rs.500 (Rupees five hundred) on the losing party in a case. However, it lacks the authority to adjudicate offenses that mandate imprisonment as per the Indian Penal Code	
coordinating volunteer projects in the community and registering births and deaths		
Handling of public water sources and tanks and public cemeteries		
Organising a search team for missing people and general development of the village		

Source: *The Lushai Hills District (Village Councils) Acts, 1953 (as amended in 2014)* retrieved from <https://sec.mizoram.gov.in> (01.04.2024)

Besides these, they also play a crucial role in implementing government programs as well as schemes in their respective villages. It is this shortage of funds that is at the crux of the State Finance Commission's proposed devolution of State Taxes to VCs, which together with devolution from the Government of India and the VCs own resources, is expected to be able to meet these expenses.

Figure 2: Funds Received by Village Councils from (First MSFC) 2016-22

Source: Second MSFC Report, Government of Mizoram 2023

iii. Projected Funds for Village Councils in Mizoram (2022-26)

As per the estimate made by the Commissions for 2022-26 fiscal years, VCs will likely receive Rupees 293 crore from Central Devolution of Taxes, Rupees 45.5 crore from State Devolution of Taxes, and rupees 32.6 crore from State Own Tax and Non-Tax Revenues. But financial self-sufficiency is even more distant for VCs than it is for the State as a whole, with their total tax and non-tax revenues making up less than 7% of the entire receipts in the past more than half-a-decade, and will likely make up less than 9% for more than the first half of this decade.

As per Second MSFC, “VC’s limited ability to generate revenue from their own sources limits their ability to function effectively as development agents delivering basic civic services to the rural population. As a result, the Village Council is unable to meet even the monthly salary of its members from its own resources”. Also, one important thing that can be noticed from the above report is that the VC’s finances and their own tax and non-tax revenues combined were roughly just half the amount needed for members’ remunerations. Yet this inability to raise revenues or the perceptual shortage of funds to meet even something as basic as members’ salaries do not have to be the case, the Commission argues because the 1953 law governing VCs allows them to tap into a source of funds that at least 13 States including Assam, Sikkim, and Tripura have already tapped into Property Tax.

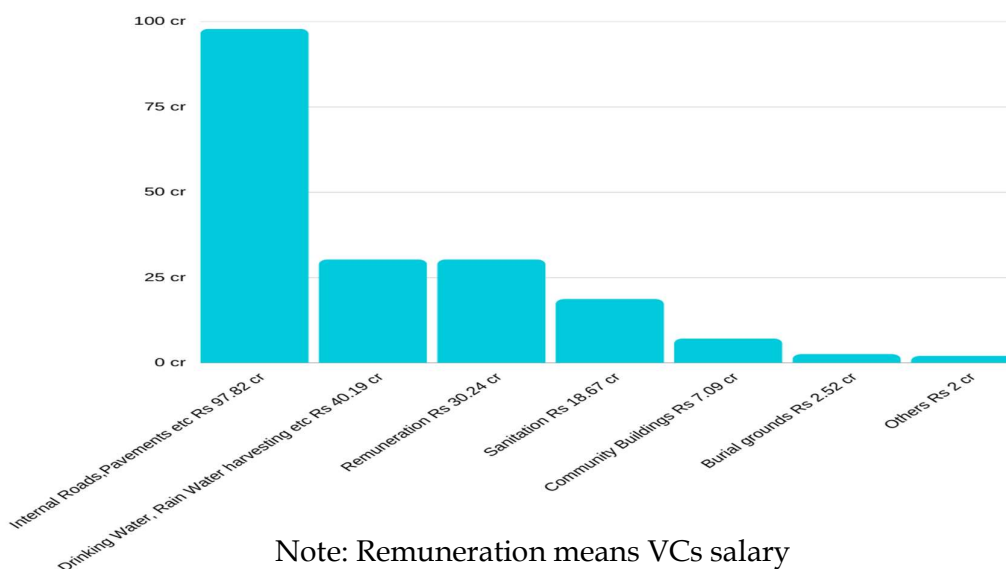
Figure 3: Projected Funds for Village Councils in Mizoram(2022-26)

Source: Second MSFC Report, Government of Mizoram 2023

iv. Grants Utilised by Village Councils in Mizoram as per (First MSFC) 2016-22

For the year (2016-2022) from RLB Grants, VCs has used Rupees 97.82 crore for making internal roads and pavements, Rupees 40.19 crore for drinking water and rainwater harvesting, Rupees 30.24 crore has been spent for remuneration (Salaries), Sanitation a sum of Rupees 18.67 crore has been used it, community building and burials ground Rupees 7.09 crore and Rupees 2.52 crore has been spent it respectively and Rupees 2 crore for miscellaneous. However, it is understandable that the VCs' own sources of income are extremely limited. As a result, in order to implement welfare programs, the villagers' tax-paying habits must also be taken into account, as their taxes will help the state and their village grows as a whole. With this observation, it recommended that the LAD frame enabling rules under the Lushai Hills District (Village Councils) Act 1953 so that VCs can levy, collect, and appropriate property taxes. But this recommendation is not among the Commission's proposals that the State Government has accepted.

Figure 4: Grants Utilised by Village Councils in Mizoram as per (First MSFC) 2016-22



Note: Remuneration means VCs salary

Source: Second MSFC Report, Government of Mizoram 2023

In absolute terms, the VCs will lose out on Rupees 6.62 crore the Commission calculated they could have collected in tax revenues over two years (2024-26). But more significant in the short term than the recommendation for property taxes in villages being shot down by the State Government is its non-retrospective acceptance of the Second MSFC recommendation for 42% devolution of state taxes to the three sets of Local Bodies: VCs, Municipalities and Autonomous Districts Councils, but the State Government will implement from 2024-25. But more significant is that more than half of the time period for which the commission has made financial proposals has already passed, and there is no mention of retrospective acceptance or arrears in the State Government's "Explanatory Memorandum on Actions Taken", on the report's recommendations, a major chunk of the Second MSFC's recommendations will remain just that recommendation.

In absolute terms, the recommended devolution that has already passed (2021-24) comes to Rupees 51.55 crores, compared to Rupees 45.5 crores for the next two financial years which is less than half the total. In all, these recommendations would result in the VCs losing out on a projected Rupees 58 crores or so they could have gotten, although business as usual on the tax collection side would shave off a few crores from notional loss.

CONCLUSION

Mizoram State Finance Commission's role is commendable; however, still there exist challenges that require strategic action. In particular, strengthening the decentralization of fiscal policy, building local capacity, ensuring uniform decentralization, and mitigating political interference are essential for the success of this change

process. The Commission also suggested that all the VCs should be required to adhere to a single set of accounting rules laid down by the State government after consulting the Accountant General. The Book of Accounts should reflect all the revenue coming into the VC fund from the above-mentioned higher governments such as grants, state government schemes, centrally sponsored schemes, own tax revenue like property tax, animal tax, own non-tax revenue which includes charges, user charges, etc., and expenditure charged on the VC account. At the end of each financial year, the VCs are required to submit their accounts to the State Government in a specific format through the District Local Administration Officer (DLAO). Keeping up with and submitting the accounts to the DLAO is a condition for releasing the grants recommended by the SFC. The journey to effective decentralization is continuous and needs strong engagement; innovation and collaboration are required to realize LSG's vision.

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