



Finances of Panchayati Raj Institutions

For Prelims: [Reserve Bank of India](#), [Panchayati Raj Institutions](#), [Rashtriya Gram Swaraj Abhiyan scheme](#)

For Mains: Functioning of Panchayats in India, Panchayati Raj Institutions, Local Self Governance, Government Policies & Interventions

Source: TH

Why in News?

The recently released report titled '**Finances of Panchayati Raj Institutions**' by the [Reserve Bank of India \(RBI\)](#) for the fiscal year 2022-23 sheds light on the financial dynamics of [Panchayati Raj Institutions \(PRIs\) in India](#).

What are the Key Highlights of the Report?

- **Revenue Composition:**
 - Panchayats **earn only 1% of their revenue through taxes.**
 - Majority of their revenue comes from **grants provided by the Centre and the States.**
 - Data indicates that 80% of the revenue is from Central government grants, while 15% is from State government grants.
- **Revenue Statistics:**
 - In the fiscal year 2022-23, panchayats recorded a total revenue of Rs 35,354 crore.
 - Only Rs 737 crore was generated through their **own tax revenue.** Panchayats can earn this through **taxes** on profession and trades, land revenue, stamps and registration fees, taxes on property, and service tax.
 - **Non-tax revenue amounted** to Rs 1,494 crore, primarily from interest payments and Panchayati Raj programs.
 - Significantly, panchayats received Rs 24,699 crore in grants from the Central government and Rs 8,148 crore from State governments.
- **Revenue Per Panchayat:**
 - On an average each panchayat earned just Rs 21,000 from its own tax revenue and Rs 73,000 from non-tax revenue.
 - Conversely, grants from the Central government amounted to approximately Rs 17 lakh per panchayat, with State government grants totaling over Rs 3.25 lakh per panchayat.
- **State Revenue Share and Inter-State Disparities:**
 - Panchayats' share in their respective State's own revenue remains minimal.
 - For example, in **Andhra Pradesh, revenue receipts of panchayats form just 0.1%** of the State's own revenue, while in **Uttar Pradesh, it forms 2.5%, the highest among states.**
 - There are wide variations among states regarding average revenue earned per panchayat.
 - **Kerala and West Bengal lead with average revenues** of over Rs 60 lakh and Rs 57 lakh per panchayat, respectively.
 - The revenue was over Rs 30 lakh per panchayat in Assam, Bihar, Karnataka,

Odisha, Sikkim, and Tamil Nadu.

- States like Andhra Pradesh, Haryana, Mizoram, Punjab, and Uttarakhand have significantly **lower average revenues**, less than Rs 6 lakh per panchayat.

▪ **Recommendations of RBI:**

- The RBI suggests promoting **greater decentralization and empowering local leaders and officials**. It advocates for measures to enhance financial autonomy and sustainability of Panchayati Raj.
- The report emphasised that PRIs can enhance resource utilisation by **adopting transparent budgeting, fiscal discipline**, community involvement in development prioritisation, staff training, and rigorous monitoring and evaluation.
- Additionally, it highlighted the **necessity of raising public awareness** about PRI functions and encouraging citizen participation for effective local governance.

Chart 1 | The chart shows the revenue receipts of panchayats in 2022-23. Figures in %

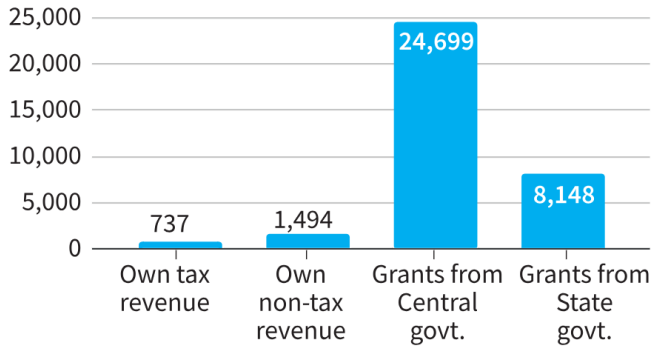


Chart 2 | The chart shows the average revenue per panchayat in 2022-23. Figures in ₹ thousand

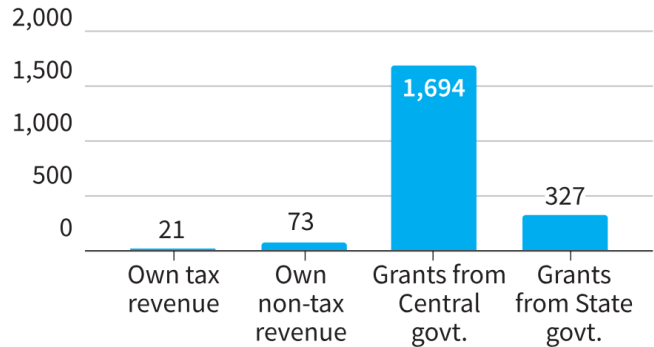


Chart 3 | The chart shows the revenue per panchayat in percentage terms in 2022-23.

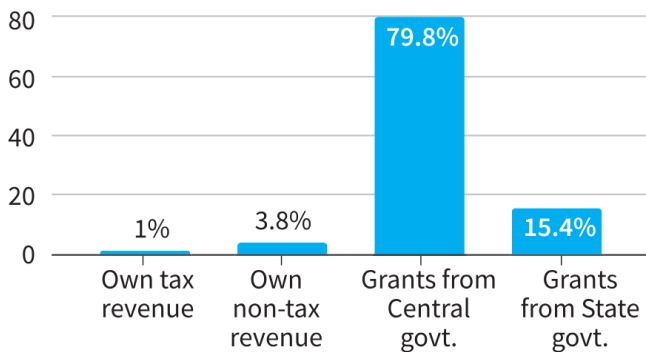


Chart 4 | The chart shows the average revenue per panchayat across States in 2022-23. Figures in ₹ lakh.

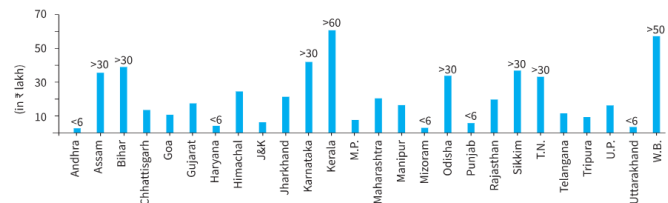
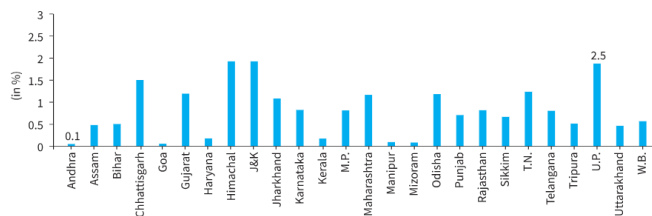


Chart 5 | The chart shows the revenue of panchayats as a share of the State's own revenue in 2022-2023. Figures in %.



Why do Panchayats Face Funding Related Issues?

▪ **Limited Taxation:**

- The PRI have **limited powers in respect of imposing cesses and taxes**. They have very little funds doled out to them by the State Government. Further, they are generally reluctant to raise necessary funds due to the fear of losing popularity with the masses.

- **Low Capacity and Utilization:**
 - PRI's **may lack the capacity and skills** to generate their own revenue from various sources, such as fees, tolls, rents, etc.
 - They also face challenges in utilising the funds efficiently and effectively, due to poor planning, monitoring, and accountability mechanisms.
- **Fiscal Decentralisation Issues:**
 - Insufficient devolution of **financial powers and functions from higher levels** of government to panchayats hampers their ability to mobilise resources independently. Limited fiscal decentralisation **undermines local governance and community empowerment.**

What are the Repercussions of Panchayats' Financial Dependence?

- Dependence on **external funding leads to interference from higher tiers of government.**
- Delayed release of funds by State governments forces **panchayats to use private funds.**
- Some regions have also reported non-receipt of funds under key schemes, impacting their functioning.
 - The **Standing Committee on Rural Development and Panchayati Raj in March, 2023** said that **19 out of 34 State/UTs did not receive any funds** under the [Rashtriya Gram Swaraj Abhiyan scheme](#) in FY23.

What is a Panchayati Raj Institution?

- The [73rd Constitutional Amendment Act, 1992](#) gave **constitutional status** to the Panchayati Raj Institutions (PRIs) and established a system of uniform structure (three tiers of PRIs), [elections](#), reservation of seats for [Scheduled Caste, Scheduled Tribes](#) and women and **devolution of fund, functions and functionaries to PRIs.**
 - **Panchayats act on three levels:** gram sabhas (village or group of small villages), panchayat samithis (block council), and zila parishads (district).
- **Article 243G** of the Constitution of India gives state legislatures the power to **provide Panchayats with the authority and powers** to function as self-government institutions.
- For financial empowerment of Panchayats, provisions have been made in terms of **Article 243H, Article 280(3)(bb) and Article 243-I** of the Constitution.
 - Article 243H gives state legislatures the **power to authorize Panchayats to levy, collect, and appropriate taxes, duties, tolls, and fees.** It also allows them to assign these taxes, duties, tolls, and fees to Panchayats, subject to conditions and limits.
 - Article 280(3) (bb), it shall be the duty of the Central Finance Commission to make recommendations to the President as to the measures needed to augment the **Consolidated Fund of a State to supplement the resources of the Panchayats in the State** on the basis of the recommendations made by the Finance Commission of the State.
 - Article 243-I mandates the formation of state finance commissions every five years by the Governor. These commissions are tasked with **reviewing the financial status of panchayats and advising the Governor on:**
 - Principles guiding the distribution of taxes, duties, tolls, and fees between the state and panchayats, including their respective shares and allocation among different levels of panchayats.
 - Measures to improve panchayats' financial position.
 - Any other finance-related matters referred by the Governor.
- The **Ministry of Panchayati Raj** looks into all matters relating to the Panchayati Raj and Panchayati Raj Institutions. It was created in May 2004.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q1. Local self-government can be best explained as an exercise in (2017)

- (a) Federalism
- (b) Democratic decentralisation
- (c) Administrative delegation
- (d) Direct democracy

Ans: (b)

Q. The fundamental object of Panchayati Raj system is to ensure which among the following? (2015)

1. People's participation in development
2. Political accountability
3. Democratic decentralisation
4. Financial mobilisation

Select the correct answer using the code given below

- (a) 1, 2 and 3 only
- (b) 2 and 4 only
- (c) 1 and 3 only
- (d) 1, 2, 3 and 4

Ans: (c)

Mains

Q1. Assess the importance of the Panchayat system in India as a part of local government. Apart from government grants, what sources can the Panchayats look out for financing developmental projects? **(2018)**

Q2. To what extent, in your opinion, has the decentralisation of power in India changed the governance landscape at the grassroots? **(2022)**

Q. In absence of a well-educated and organised local level government system, 'Panchayats' and 'Samitis' have remained mainly political institutions and not effective instruments of governance. Critically discuss. **(2015)**