



Parliamentary Panel Highlights Funding Cuts to Rural Bodies

For Prelims:

[Panchayati Raj Institutions \(PRIs\)](#), [11th Schedule](#), [State Finance Commissions \(SFCs\)](#), [GST](#), [Gram Sabha](#), [Finance Commissions](#).

For Mains:

[Issues in Funding of Rural Local Bodies](#) and Functioning of Panchayati Raj Institutions.

Source: IE

Why in News?

The **Standing Committee on Rural Development and Panchayati Raj** has flagged the “**steady decline**” in the allocation of funds to [Panchayati Raj Institutions](#)” and urged the Centre to take “urgent steps” to ensure that adequate, untied, and **performance-linked funds** are allocated to **rural local bodies**.

What are the Sources of Funds for Rural Local Bodies?

- **Own Source Revenue (OSR):** Rural local bodies generate funds independently through taxes (e.g., property tax, vehicle tax), non-tax revenues (e.g., fees for licensing, water supply), and other sources (e.g., penalties, user charges).
- **Shared/Assigned Revenue:** Revenues collected by higher levels of government (state or central) and shared with or assigned to rural local bodies include [local cess](#) and surcharges, shared entertainment tax, and share of mining royalties or lease proceeds from social forestry.
- **Central Finance Commission Grants:** The majority of Panchayat funds come from the central government, as recommended by the [Finance Commission](#), including untied and tied grants.
- **State Government Grants:** [State Finance Commissions](#) recommend and state governments provide grants-in-aid and devolved funds to local bodies, on the basis of population, geographic area, and other criteria.
- **Funds under Centrally Sponsored Schemes and State Schemes:** These funds are routed through panchayats for the implementation of schemes such as [MGNREGS](#) (Mahatma Gandhi National Rural Employment Guarantee Scheme), **PMAY-G** (Pradhan Mantri Awas Yojana-Gramin), **Swachh Bharat Mission**, **NRLM**, and others.
- **Special Grants:** Under MP Local Area Development Scheme ([MPLADS](#)), MLA/MLC Local Area Development Schemes, Backward Regions Grant Fund (BRGF), etc.

What are the Issues Related to Funding of Rural Local Bodies?

- **Decline in PRI fund Allocation:** The parliamentary committee highlighted that consistent reduction in funds allocated to Panchayati Raj Institutions (PRIs) hampers [fiscal decentralization](#) and limits their ability to meet constitutional duties.

- The [2024 Devolution to Panchayats in States Report](#) also highlights concerns over limited social audits, poor Gram Sabha participation, and inadequate financial disclosure, which hinder oversight and transparency.
- **State Finance Commission (SFC) Constitution:** The parliamentary committee emphasizes the need for states to timely constitute [SFCs](#) to ensure the proper flow of central grants, as delays in implementation, along with centralized [GST](#) and limited fiscal autonomy, hinder Panchayats' financial control.
 - The committee noted that only 25 states have set up SFCs, and only nine constituted the 6th SFC.
 - Also, the committee highlighted that while Punjab and Tamil Nadu have demonstrated strong compliance with SFCs, states like Arunachal Pradesh, Chhattisgarh, Gujarat, Jharkhand, and Telangana face delays in **ATRs (action taken reports)** submission.
- **Inability to Address Local Needs:** The committee highlighted that the reduction in untied and **scheme-based transfers** hampers PRIs' capacity to meet local development needs, impacting services, infrastructure, and social welfare.
 - The 2024 Devolution to Panchayats in States Report also highlights that inconsistent transfer of 29 subjects ([11th Schedule](#)) due to state governments' fear of losing control limits Panchayats' decision-making authority.
- **Institutional Flaws:** Further, the **2024 Devolution to Panchayats in States Report** highlighted concerns that rotating reserved seats for [SCs, STs](#), and women disrupts leadership continuity, as new leaders bring different priorities and approaches.
 - [District Planning Committees \(DPCs\)](#) are present but poorly implemented, and elected representatives lack adequate training in governance, budgeting, and planning.

Status of PRI Funding (Status of Devolution to Panchayats in States Report 2024)

- **Revenue Composition:** PRIs generate only 1% of revenue through taxes, indicating limited self-financing capacity.
 - Around 95% of PRI revenues come from grants provided by the Central and State governments.
- **Revenue Per Panchayat:** Each Panchayat earns **Rs 21,000** from own taxes and **Rs 73,000** from non-tax sources.
 - Central grants average Rs 17 lakh, and State grants are around Rs 3.25 lakh per Panchayat, showing high reliance on external support.
- **Low Revenue Expenditure:** The ratio of revenue expenditure of panchayats to [nominal GSDP](#) is less than 0.6% for all the states ranging from 0.001% in Bihar to 0.56% in Odisha.
- **Inter-State Disparities:** Kerala and West Bengal have the highest average revenue (over Rs 60 lakh and Rs 57 lakh), while states like Andhra Pradesh and Punjab report much lower revenues (less than Rs 6 lakh).

What are the Steps Needed to Improve Funding of Rural Local Bodies?

- **Performance-Linked Resources:** The parliamentary committee report urges allocating sufficient, untied, performance-linked resources to PRIs, ensuring **fund protection** and promoting transparency.
 - Panchayats should enhance **revenue through local taxes**, with state support for better tax collection.
- **Fund Allocation:** The parliamentary committee report recommends that the Ministry of Panchayati Raj, in coordination with the **Ministry of Finance and the [Fifteenth Finance Commission](#)**, must urgently address the reduction in fund allocation, ensuring consistent, untied, and performance-linked financial support for PRIs.
 - **Regular fiscal transfers**, aligned with states' capacity to finance Panchayats, are crucial for [sustainable local governance](#), as opposed to ad-hoc grants, to ensure long-term growth and equalization across regions.
- **State Finance Commissions (SFCs):** The committee report recommends that the Panchayati

Raj Ministry should encourage state governments to establish [State Finance Commissions \(SFCs\)](#) consistently to ensure timely devolution of funds and prevent delays in central grants distribution.

- States must improve adherence to SFC constitution and reporting requirements, ensuring **regular submission of reports and Action Taken Reports (ATRs)**, with full implementation of recommendations to guarantee consistent Panchayat funding.
- **Ensuring Transparency:** The 2024 Devolution to Panchayats in States Report recommends that mechanisms should be established to safeguard PRI funds from diversion, promote **transparency in fiscal transfers** between government tiers, and ensure financial accountability through regular audits, [RTI disclosures](#), and robust procurement procedures.
- **Digital Infrastructure:** The 2024 Devolution to Panchayats in States Report recommends that panchayats should serve as hubs for public services, improving access to government schemes, while enhancing **digital infrastructure** for better governance and transparency.

Conclusion

To ensure the effective functioning of PRIs, it is essential to prioritize timely devolution of funds, enhance revenue generation at the local level, and strengthen institutional mechanisms for transparency and accountability, while promoting sustainable governance practices and empowering rural bodies for long-term growth.

Drishti Mains Question

Q. Discuss the implications of reduced funding to rural bodies on rural development. What measures can be taken to mitigate its effects?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

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 the Panchayati Raj system is to ensure which among the following? (2015)

1. People's participation in development
2. Political accountability
3. Democratic decentralization
4. Financial mobilization

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

Q2. 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)

PDF Reference URL: <https://www.drishtiias.com/printpdf/parliamentary-panel-highlights-funding-cuts-to-rural-bodies>

