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Financial Empowerment of  
Panchayati Raj

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## FINANCIAL EMPOWERMENT OF PANCHAYATI RAJ

**Syllabus:** GS2/Governance

### Context:

- The **Reserve Bank of India's (RBI)** recently released its maiden report on '**Finances of Panchayati Raj Institutions**,

### About:

- It sought to **fill a long-felt gap in understanding of the fiscal health of the third tier** of government in India: local institutions of governance.
- Though it is now more than 30 years since the **73rd amendment**, the report said, empowerment of the kind envisaged in 1992 is yet to be realized.

### Findings of the report:

- **Host of factors:** The report points out, their efficacy is "contingent upon factors such as the **availability of adequate resources, nurturing of capabilities, political support, and active engagement** of the local community."
- **Finances: The main stumbling block is inadequate resources.** Over the years, PRIs have done little to augment their own revenues from items like property tax, fees and fines, while preferring the softer option of transfers from higher levels.
- **Lack of autonomy:** Inevitably, this reliance on grants has meant they are not financially self-reliant, thereby **limiting their ability to decide local spending priorities themselves.**
- **Subsidiarity principle: The principle of subsidiarity** as enshrined in the **EU's Maastricht Treaty**, is far from realized in India's third tier of government.
  - ♦ The principle of subsidiarity means that higher levels of government should perform only those functions that cannot be effectively performed at the local level.
- **Uneven devolution and development:** As regional disparities are sharp with respect to economic development in India, **the devolution of powers and functions to panchayats (and their performance) varies greatly across states.**
  - ♦ In general, **India's southern states have done better than others**, which may perhaps explain why these states have made **more progress on human development indicators.**

### About Panchayati Raj

- It is a **system of local self-government in India.**
- It is a **three-tier system**, with village panchayats at the grassroots level, block panchayats at the intermediate level, and zilla parishads at the district level.
- **73rd amendment** to the Constitution of India institutionalized Panchayati Raj Institutions (PRIs).

#### Related Committees:

- **Balwant Rai Mehta Committee (1957):** This landmark committee recommended the three-tier Panchayati Raj system, with Gram Panchayats (village level), Panchayat Samitis (block level), and Zilla Parishads (district level).
- **Ashok Mehta Committee (1977):** Focused on strengthening financial resources and functional autonomy of Panchayats.
- **G.V.K. Rao Committee (1985):** Emphasized the need for regular elections and greater participation of women and marginalized communities.
- **L.M. Singhvi Committee (1986):** Recommended measures to address financial constraints and improve administrative efficiency of Panchayats.
- **P.K. Thungan Committee (1989):** Proposed electoral reforms and devolution of more power and functions to Panchayats.

- **Harlal Singh Kharrar Committee (1990):** Focused on ensuring timely elections and strengthening accountability mechanisms.
- **Natarajan Committee (1996):** Assessed the implementation of the 73rd Amendment and recommended further devolution of power and resources.
- **Vikram Singh Malik Committee (2001):** Proposed measures to address corruption and promote transparency in Panchayati Raj institutions.
- **Sachar Committee (2006):** Highlighted the need for greater representation and empowerment of women in Panchayats.
- **M.V. Rajwade Committee (2017):** Reviewed the functioning of Gram Sabhas and recommended steps to enhance their participation and effectiveness.

### Importance

- **Rural governance:** According to the **2011 Census**, almost **69% of our population resides in rural areas**. By any reckoning, it is no exaggeration that panchayats are **critical to providing local governance** and stepping up rural development.
- **Translating vision:** The RBI report says, local governments at the panchayat level (about 262,000 such) have a “**significant role in translating the vision and developmental policies** of both the Central and State governments into action.”
- **Local needs:** Local governments invariably have **more detailed information on the preferences and local needs** of citizens than any higher level of government. This makes them best suited to provide many basic public goods and services, such as health, education, sanitation, etc.

### Challenges:

#### Limited devolution of power:

- **Funds:** Transfer of financial resources from the central and state governments to Panchayats remains inadequate, hampering their ability to deliver basic services and undertake development projects.
- **Functionaries:** Shortage of adequately trained and qualified personnel at the Panchayat level limits their capacity to manage resources and implement programs effectively.
- **Functions:** While the 73rd and 74th amendments outlined responsibilities for Panchayats, crucial sectors like irrigation, education, and healthcare remain largely controlled by higher levels of government, restricting their autonomy.

#### Political interference:

- **Party politics:** Panchayat elections are often contested along party lines, leading to politicization of local governance and prioritizing partisan interests over community needs.
- **Bureaucratic hurdles:** Panchayats face bureaucratic obstacles from state and central government officials, often delaying approvals and hindering project implementation.
- **Social inequalities:** Existing social hierarchies like caste and gender can marginalize certain groups, preventing them from fully participating in Panchayat decision-making.

#### Internal weaknesses:

- **Corruption:** Lack of transparency and accountability mechanisms can lead to misuse of funds and resources, undermining public trust in Panchayats.
- **Lack of awareness and capacity:** Limited understanding of Panchayat roles and responsibilities among both elected representatives and citizens can impede effective participation and utilization of the system.
- **Gender gap:** Low representation of women in Panchayats despite reservation quotas often restricts their voice and influence in decision-making.

#### Measures:

- **Decentralisation not just devolution:** Implement true devolution of funds, functions, and functionaries.
- **Transparency and accountability:** Regularly conduct transparent audits of Panchayat finances and projects to prevent corruption and misuse of resources..
- **Empower Gram Sabhas:** Ensure active participation of Gram Sabhas in decision-making, budget allocation, and project monitoring.
- **Promote active citizen participation** and empower marginalized communities, through mechanisms like **social audit**.

#### Way Ahead:

- The RBI report says, ideally, **the level responsible for providing a particular good or service should also be in charge of its funding and revenue** collection, minimizing the scope for moral hazard.
- Strengthening Panchayati Raj is an ongoing process that requires **sustained commitment from the government, civil society, and rural communities**.
- There is a need to move towards realizing the dream of Mahatma Gandhi that **“every village will be a republic or panchayat, having full powers”**, that can drive inclusive development and social change in rural India.

Source: [LM](#)

