



## Panchayats as Self-governing Institutions

### Why in news?

Three decades have passed since the 73rd and 74th Constitutional Amendments Acts came into effect, which envisaged that local bodies in India would function as institutions of local self-government.

#### 73<sup>rd</sup> Amendment Act, 1993

- The Act has given constitutional status to the panchayat raj institutions and a practical shape to the Article 40.
- **Article 40-** The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.
- **Part-IX-** It is entitled as 'The Panchayats' and consists of provisions from Articles 243 to 243 O.
- **Eleventh Schedule-** It contains 29 functional items of the Panchayat.
- **Devolution of finances-** The State legislature may
  - Authorise a panchayat to levy, collect and appropriate taxes, duties, tolls and fee
  - Assign to a panchayat taxes, duties, tolls and fees levied and collected by the state government.
  - Provide for making grants-in-aid to the panchayat from the consolidated fund of the state and
  - Provide for constitution of funds for crediting all moneys of the panchayats.
- **State Finance Commission-** The governor of a state shall, after every five years, constitute a finance commission to review the financial position of the panchayats.
- **Gram sabhas-** They have a significant role in fostering self-sufficiency and sustainable development at the grass-roots level by leveraging local resources for revenue generation.
- **Inclusive participation-** Gram sabhas can be engaged in planning, decision-making, and implementation of revenue-generating initiatives that range from agriculture and tourism to small-scale industries.
- **Financial management-** Gram sabhas have the authority to impose taxes, fees, and levies, directing the funds towards local development projects, public services, and social welfare programmes.

### How panchayat raj generate revenues?

- **Article 280-** Grants from the Union Government based on recommendations of the Central Finance Commission as Article 280 of the Constitution.
- **Article 243-I-** Devolution from the State Government based on recommendations of the State Finance Commission.

- Loans and grants from the State Government.
- Programme-specific allocation under Centrally Sponsored Schemes and Additional Central Assistance.
- Internal resource generation such as tax and non-tax collection.

Tax revenue	Non-Tax revenue
Property tax, cess on land revenue, surcharge on additional stamp duty, tolls, tax on profession, advertisement etc.,	User charges for water and sanitation and lighting, fees, rent, income from investment sales and hires charges and receipts, etc

### What are the challenges associated with devolution of finances?

- **Lack of fiscal empowerment**- States have not given adequate attention to fiscal empowerment of the panchayats, as they have own tight fiscal position.
- **Lack of adequate devolution**- Many States have not taken adequate steps to devolve 3Fs (i.e., functions, funds and functionaries) to the PRIs to enable them to discharge their constitutionally stipulated function.
- **Fiscal disparity**-There is a disparities in the tax collection and revenue sharing among the three tiers of panchayats (gram, intermediate and district)
- **Poor internal resource generation**- It is weak due to thin tax domain due to panchayat's own reluctance in collecting revenue.
- **Heavy dependency**- As per a data panchayat earns only 1% of revenue with 80% of revenue from Centre and 15% from States.
- **Limited power**- A major portion of the grants both from Centre and State is scheme specific, hence panchayat have limited discretion and flexibility in incurring expenditure.
- **Limited implementation**- State government is responsible for implementation of programs in the most of the critical 11<sup>th</sup> Schedule matters like primary education, healthcare, water supply etc.,
- **Lack of authority**- The gram panchayats lack the authority to collect taxes, while in numerous others, intermediate and district panchayats are not delegated the responsibility of tax collection.
- **Lack of incentivisation**- Panchayats do not have a strong incentive or mechanism to collect revenue from the defaulters, who fail to pay their taxes or dues to the panchayats.

### What lies ahead?

- There is a need to demarcate the own source of revenue for the entire three-tier panchayats and minimise the dependency on grants to ensure equitable sharing.
- There is a need to educate elected representatives and the public on the significance of raising revenue to develop panchayats as self-governing institutions
- Ministry of Panchayati Raj has recommended to cover income from rural business hubs, innovative commercial ventures, renewable energy projects, carbon credits.

### References

1. [The Hindu- Panchayats as self-governing institutions](#)
2. [MoPRI- Own source revenue report](#)



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