



## Mains Practice Question

**Q.** What is the present financial condition of Panchayati Raj Institutions (PRIs) in India? Analyze the hurdles PRIs face in generating internal revenue and suggest measures to strengthen their financial autonomy. (250 words)

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### Approach

- Start the answer by mentioning the provisions in the Indian Constitution that empower local bodies in the country.
- Discuss the present financial condition of Panchayati Raj Institutions (PRIs) in India.
- Analyze the hurdles PRIs face in generating internal revenue.
- Suggest measures to strengthen their financial autonomy.
- Conclude suitably.

### Introduction

The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts empower local bodies in India for self-government, including fiscal devolution and revenue generation. Emanating from these central acts, various States Panchayati Raj Acts have made provisions for taxation and collection. Based on the provisions of these Acts, panchayats have made efforts to generate their own resources to the maximum extent.

### Body

#### The Current Status of Finances of PRIs :

- **Revenue Statistics:**
  - As per RBI, in FY 2022-23, panchayats recorded a total revenue of Rs 35,354 crore.
  - However, only Rs 737 crore was generated through their own tax revenue which can be earned 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.
  - 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 the 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.

### **The hurdles that PRIs face in generating internal revenue :**

- **Excessive Reliance on Grants:**
  - "Panchayats earn only 1% of the revenue through taxes," with the rest being raised as grants from the State and Centre. It specifically points out that 80% of the revenue is from the Centre and 15% from the States.
- **Disparities Across States:**
  - In several states, gram panchayats lack the authority to collect taxes, while in numerous others, intermediate and district panchayats are not delegated the responsibility of tax collection.
  - There is a need to demarcate Own Source of Revenue (OSR) for the entire three-tier panchayats to ensure equitable sharing.
- **General Aversion Towards Generating Own Income:**
  - With the increase in the allocation of Central Finance Commission (CFC) grants, panchayats are evincing less interest in the collection of OSR.
  - The allocation for rural local bodies from the 10<sup>th</sup> and 11<sup>th</sup> CFC was Rs 4,380 crore and Rs 8,000 crore, respectively.
    - But in the 14<sup>th</sup> and 15<sup>th</sup> CFCs, there was a huge increase by way of allocating Rs 2,00,202 and Rs 2,80,733 crore, respectively.
    - The tax collected in 2018-19 was Rs 3,12,075 lakh which diminished in 2021-2022 to Rs 2,71,386 lakh. The non-tax revenue collected for the same period was Rs 2,33,863 lakh and Rs 2,09,864 lakh.
- **Incentivisation by State Governments:**
  - At one time, panchayats were in competition to raise OSR for their commitment to fulfill basic needs. This has now given place to dependency on allocations and reimbursements through different finance commissions.
  - Some States have a policy of incentivization by providing matching grants but these were sparingly implemented.
- **Impediments Due to Freebie Culture:**
  - Despite every enabling factor to raise revenue, panchayats confront several impediments in resource mobilization: the 'freebie culture' rampant in society is the cause for the antipathy in paying taxes. Elected representatives feel that imposing taxes would alter their popularity adversely.

### **Suggestions Required for Boosting the Financial Resources of PRIs :**

- **Recommendations of Expert Committee Report:**
  - The report of the expert committee constituted by the Ministry of Panchayati Raj on OSR of rural local bodies elaborates on the details of State Acts that have incorporated tax and non-tax revenue that can be collected and utilised by panchayats.
  - Property tax, cess on land revenue, surcharge on additional stamp duty, tolls, tax on profession, advertisement, user charges for water and sanitation and lighting are the **major OSRs where panchayats can earn maximum income.**
- **Establishing Conducive Environment:**
  - Panchayats are expected to establish a conducive environment for taxation by implementing appropriate financial regulations.
  - This includes making decisions regarding the tax and non-tax bases, **determining their rates, establishing provisions for periodic revisions, defining exemption areas,** and **enacting effective tax management** and enforcement laws for collection.
- **Diversifying Sources for Non-Tax Revenues:**
  - The huge potential for non-tax revenue includes fees, rent, and income from investment

sales and hires charges and receipts. There are also innovative projects that can generate OSR.

- This covers income from rural business hubs, innovative commercial ventures, renewable energy projects, carbon credits. Corporate Social Responsibility (CSR) funds and donations.

▪ **Leveraging Local Resources:**

- Gram sabhas have a significant role in fostering self-sufficiency and sustainable development at the grass-roots level by leveraging local resources for revenue generation.
  - They can be engaged in **planning, decision-making, and implementation of revenue-generating initiatives** that range from agriculture and tourism to small-scale industries.
  - They have the authority to impose taxes, fees, and levies, directing the funds towards local development projects, public services, and social welfare programmes.

▪ **Fostering Partnerships:**

- Through transparent financial management and inclusive participation, gram sabhas ensure accountability and foster community trust, ultimately empowering villages to become economically independent and resilient.
- Thus, gram sabhas need to promote entrepreneurship, and foster **partnerships with external stakeholders to enhance the effectiveness of revenue generation efforts.**

▪ **Recommendations of RBI:**

- The RBI suggests promoting greater decentralisation 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.

▪ **Educating Elected Representatives and Public:**

- There is a need to educate elected representatives and the public on the significance of raising revenue to develop panchayats as self-governing institutions.

## Conclusion

Ultimately, the dependency syndrome for grants has to be minimized in due course so that panchayats will be able to survive on their own resources. Panchayats can only achieve such a state of affairs when there are dedicated efforts at all tiers of governance, which includes even the State and central level.