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Relevant for: Indian Society | Topic: Urbanization, their problems and their remedies incl. Migration & Smart Cities

The Reserve Bank of India's (RBI) maiden report on 'Finances of Panchayati Raj Institutions,' released on 24 January 2024, fills a long-felt gap in our 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 to the Constitution institutionalized Panchayati Raj Institutions (PRIs) at three levels in rural India—gram panchayats at the village level, mandal panchayats at the block level and zila parishad at the district level—empowerment of the kind envisaged in 1992 is yet to be realized. And sadly so. 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. As the 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 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. Yet, despite their pivotal role, challenges abound. Starting with inadequate independent financial resources and heavy reliance on grants from upper tiers of government and an inability to deliver due to lack of trained manpower to weak infrastructure and lack of political will, PRIs have fallen far short of their potential. As 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." Of these, the main stumbling block is inadequate resources. Over the years, PRIs have done little to augment their own revenues—items like property tax, fees and fines—while preferring the softer option of transfers from higher levels. Inevitably, this reliance on grants has meant they are not financially self-reliant, thereby limiting their ability to decide local spending priorities themselves.

The principle of subsidiarity, as enshrined in the EU's Maastricht Treaty, is no less true of all federal forms of government. In a nutshell, it means that higher levels of government should perform only those functions that cannot be effectively performed at the local level. 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. For basic services, this means it is PRIs that must provide these to citizens. However, as with economic development in general, where regional disparities are sharp, 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. Clearly, when it comes to the bottom layer of government, we still have a long way to go, notwithstanding the hope embodied in India's panchayati raj legislation, including one-third reservation of seats for women in elected PRI bodies. It will be a while before we realize the dream of Mahatma Gandhi that "every village will be a republic or panchayat, having full powers." But we must speed it up.

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