Q15

Assess the importance of the Panchayat system in India as a part of local government. Apart from government grants, what sources the Panchayats can look out for financing developmental projects? (15).

UPSC Civil Services Mains 2018 · GS II · 15 marks · Governance and Policy

Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Core demand of the question

- Assess the importance of the Panchayat system in India as a part of local government. Apart from government grants, what sources the Panchayats can look out for financing developmental projects?

Revision summary

The 73rd Amendment made Panchayats a constitutional third tier of local government.

Gram Sabha, three-tier elections, reservations and the Eleventh Schedule are the core of that importance.

Article 243H allows taxes, assigned revenues and grants; grants should not be the only story.

Own sources include house tax, user charges, market and pond rents, and assigned State taxes.

PPP, CSR and limited borrowing can add project finance where State law and the SFC allow.

Introduction

The seventy-third Constitutional Amendment gave Part IX, the Gram Sabha, a three-tier Panchayat in rural India, reservations, a State Election Commission and a State Finance Commission. Panchayats are not a Union scheme; they are the third stratum of government. Their importance is democracy and delivery at the habitation. Their weakness is money: too much of the budget is still a grant from above.

Body

Importance as local government

- Article 40 had only directed village panchayats; Part IX made them constitutional bodies with a five-year term and elections under a State Election Commission.
- The Eleventh Schedule lists twenty-nine subjects, from agriculture and minor irrigation to rural housing, roads, health, education, women and child development, and poverty alleviation. That is the map of a local developmental state, even when States have not fully devolved functions, funds and functionaries.
- Gram Sabha is the only large-scale direct-democracy forum in the Constitution. Social audit of MGNREGA, beneficiary lists, and local planning take their legitimacy from that assembly.

• Reservations for Scheduled Castes, Scheduled Tribes and women (not less than one-third, and half in many States) made local government the widest school of political office in India, including for groups still thin in Assemblies.

• District Planning Committees under Article 243ZD are meant to knit Panchayat and municipality plans. That is local government as spatial planning, not only as a scheme-implementing agency.

• **Importance also shows in failure:** where the sarpanch is a proxy, where the Block office holds the cheque, and where parallel user committees ignore the Panchayat, the constitutional design is not yet the working design.

• Compared with municipalities (Part IXA), Panchayats cover the larger population share and the farm and forest economy. Rural local government is therefore central to inclusion, not a side wing of urban reform.

Own and assigned sources beyond Union and State grants

• Article 243H allows the State legislature to authorise Panchayats to levy, collect and appropriate taxes, duties, tolls and fees, to assign taxes, and to give grants-in-aid from the State Consolidated Fund. Grants are one channel, not the only legal channel.

• Property and house tax on village buildings, where the State law assigns it, is the most stable own tax. Water charges, lighting fees, sanitation fees and drainage charges can follow the user-pays rule for local services.

• Profession tax, advertisement tax, and taxes on fairs, hats and markets are classic Panchayat tools where the State schedule permits them.

• **Non-tax revenue:** rent from Panchayat shops, bus stands, ponds and fisheries auction, sand and minor-mineral royalty shares where devolved, parking, community halls, and tree and orchard produce on Panchayat land.

• User charges and betterment levies on local roads, irrigation tanks and drinking-water schemes can finance operation and a part of capital cost if billing is honest.

• State-assigned shares of stamp duty, entertainment tax or electricity duty, recommended by the State Finance Commission, are not "schemes"; they are statutory devolution and should be treated as a Panchayat source.

• Developmental projects can also tap public-private partnerships for markets, storage and rural tourism; cooperative and SHG equity for livelihood sheds; CSR under the Companies Act for clearly ring-fenced assets; and borrowing or bonds where State law and the SFC allow, which is still rare at Gram Panchayat level.

• Convergence of MGNREGA labour with a Panchayat asset, and community contribution in kind, stretch a project but are not a substitute for an own-tax base.

• Carbon and environmental payments, payment for ecosystem services, and tourism entry fees in peri-forest Panchayats are newer sources where the State frames a rule.

Assessment

• Panchayats matter because they are elected government next to the citizen, with a constitutional subject list and inclusion rules that Parliaments took decades to copy.

• They will not finance large roads from pond auctions alone. Own tax plus SFC devolution plus a limited project partnership is the realistic mix; Union Finance Commission grants remain a floor, not the whole house.

Flow diagram

Part IX Panchayats -> Gram Sabha and 11th Schedule

Part IX Panchayats -> Money Article 243H

Money Article 243H -> Own tax and user charges

Money Article 243H -> Assigned taxes and SFC

Money Article 243H -> PPP CSR rents fisheries

Gram Sabha and 11th Schedule -> Local government not only agency

Conclusion

- **As local government, the Panchayat system is the constitutional third tier:** Gram Sabha, three-tier elections, reservations, and the Eleventh Schedule. Apart from grants, Panchayats can look to house and property tax, user charges, market and fishery rents, assigned State taxes, SFC devolution, PPP and CSR for named assets, and, where law allows, limited borrowing. Importance without that own-source mix stays as agency, not as government.

Facts & figures

Part IX and 73rd Amendment

Constitutionalised Panchayats: Gram Sabha, duration, reservations, SEC and SFC.

Eleventh Schedule

Twenty-nine subjects that a State may devolve to Panchayats.

Article 243H

State law may authorise Panchayat taxes, assigned taxes and grants-in-aid.

Article 243-I

State Finance Commission to review Panchayat financial position every five years.

Article 243ZD

District Planning Committee to consolidate Panchayat and municipality plans.