

II

Fiscal Position of Panchayati Raj Institutions

1. Introduction

2.1 The *Panchayati Raj* Institutions (PRIs) are entrusted with planning and implementing various essential services and developmental activities in rural areas. An analysis of their fiscal situation is, however, constrained by the non-availability of consolidated data. This chapter attempts to address this concern by analysing *Panchayat* finances across 26 States/UTs for 2020-21, 2021-22 and 2022-23. The rest of this chapter is structured into three sections. Section 2 examines fiscal outcomes for the period of reference. Section 3 discusses the financing of *Panchayats* through grants. Section 4 summarises the key findings.

2. The State of *Panchayat* Finances

2.2 The *Panchayats* are constituted in a three-tier structure, *i.e.*, village, intermediate and district level. At the village level, there is a *Gram Sabha*, consisting of persons registered in the electoral rolls in a village within the *Panchayat*. The village directly elects the Chairperson of the *Panchayat*. Currently, there are more than 2.55 lakh village *Panchayats* in the country (Table II.1).

2.3 In consultation with stakeholders, the Ministry of *Panchayati Raj* (MoPR) has formulated a simplified format of accounts for PRIs to

exercise better accountability and transparency. In this system, the functions of the *Panchayats*, as enumerated in the 11th Schedule of the Constitution, are represented through a four-digit major code classification (Annex) and a second three-digit minor head classification.

2.4 *Panchayats'* information on receipts and payments is provided to the MoPR in this format, and it is accessible to the public through the *eGramSwaraj* portal. The coverage of the number of village *Panchayats* reporting the data has improved over time - the number of *Panchayats* reporting data on the portal during the last three years has averaged 2.43 lakh and 2.36 lakh for revenue receipts and expenditure, respectively, covering more than 90 per cent of total village *Panchayats* in the country. The number for revenue expenditure is lower due to non-reporting of data by some *Panchayats*, and the gap has narrowed in recent years. The number of *Panchayats* reporting data on the portal during the last three years has averaged 2.43 lakh and 2.36 lakh for revenue receipts and expenditure, respectively, covering more than 90 per cent of total village *Panchayats* in the country. The number for revenue expenditure is lower due to non-reporting of data by some *Panchayats*, and the gap has narrowed in recent years. The number of *Panchayats* reporting data for capital receipts and capital expenditure is less. Hence, the analysis in this Report is mainly restricted to revenue receipts and revenue expenditure. Furthermore, the reporting of data is not consistent across the years, with instances of *Panchayats* reporting data for only two of the three years or not reporting data for some account heads for all three years. The data were cleaned for such reporting issues, and a balanced panel has been used for the analysis with the same number of village *Panchayats* across the three years. The data in the balanced panel cover 80.8 per cent and 69.1 per cent of total *Panchayats* for revenue receipts and expenditure, respectively (Table II.2).

Table II.1: Number of *Panchayats*

Sr. No	Units	Number (As of Dec. 31, 2022)
1.	Number of Village <i>Panchayats</i>	2,55,623
2.	Number of Intermediate <i>Panchayats</i>	6,697
3.	Number of District <i>Panchayats</i>	665

Source: Annual Report 2022-23, Ministry of *Panchayati Raj* (MoPR).

Table II.2: State-wise Number of Village *Panchayats* in the Balanced Panel

State/UT	Total No. of Village <i>Panchayats</i>	Revenue Receipts		Revenue Expenditure	
		No. of <i>Panchayats</i>	Coverage (%)	No. of <i>Panchayats</i>	Coverage (%)
Andhra Pradesh	13325	3575	26.8	3384	25.4
Assam	2662	1515	56.9	892	33.5
Bihar	8181	2613	31.9	39	0.5
Chhattisgarh	11654	10886	93.4	10518	90.3
Goa	191	102	53.4	65	34.0
Gujarat	14620	13474	92.2	1246	8.5
Haryana	6223	4252	68.3	2029	32.6
Himachal Pradesh	3615	3060	84.6	2921	80.8
Jammu And Kashmir	4291	253	5.9	4142	96.5
Jharkhand	4345	4243	97.7	4097	94.3
Karnataka	5953	4173	70.1	4165	70.0
Kerala	941	373	39.6	705	74.9
Ladakh	193	-	-	24	12.4
Madhya Pradesh	23012	21922	95.3	17868	77.6
Maharashtra	27901	24679	88.5	24815	88.9
Manipur	3812	152	4.0	135	3.5
Mizoram	842	361	42.9	-	-
Odisha	6794	5728	84.3	5918	87.1
Punjab	13241	11513	86.9	5701	43.1
Rajasthan	11253	8989	79.9	5508	48.9
Sikkim	199	165	82.9	154	77.4
Tamil Nadu	12525	9159	73.1	10371	82.8
Telangana	12769	12280	96.2	11848	92.8
Tripura	1176	1172	99.7	1160	98.6
Uttar Pradesh	57709	55274	95.8	52953	91.8
Uttarakhand	7795	7003	89.8	6751	86.6
West Bengal	3339	1932	57.9	1163	34.8
Total	258561	208848	80.8	178572	69.1

Note: -: Data are not available.

Source: MoPR.

2.5 Depending upon the size and population of the State, the number of *Panchayats* varies considerably across the States in the dataset. For revenue receipts, the number of *Panchayats* varies from 102 in Goa to 55,274 in Uttar Pradesh. Furthermore, for a given State, there can be wide variations in the reporting between revenue receipts and revenue expenditure. To address such issues, the analysis and State-wise data presented in this Report pertain to averages per *Panchayat* level.

2.1 Receipts

2.6 The revenue receipts are dominated by grants-in-aid, with a share of more than 95 per cent of the total receipts (Table II.3). The *Panchayats* receive grants from both Central and State governments. These grants may be distributed under specific schemes or based on the Central Finance Commission's (CFC) and State Finance Commissions' (SFC) recommendations.

Table II.3: Revenue Receipts

(₹ crore)

	2020-21	2021-22	2022-23
Revenue Receipts	41,744	37,971	35,354
A. Own Tax Revenue	703	786	737
B. Own Non-Tax Revenue	1,365	1,415	1,494
C. Grants-in-aid	39,675	35,770	33,123
(i) Grants from Central Government	30,264	27,060	24,699
(ii) Grants from State Government	9,138	8,412	8,148
Average Revenue per Panchayat			
(₹ thousand per Panchayat)			
Revenue Receipts	2,117	2,320	2,123
A. Own Tax Revenue	24	26	21
B. Own Non-Tax Revenue	68	72	73
C. Grants-in-aid	2,026	2,221	2,029
(i) Grants from Central Government	1,640	1,846	1,694
(ii) Grants from State Government	377	366	327
Note: Grants-in-aid include grants from Centre, States, and other institutions.			
Source: MoPR.			

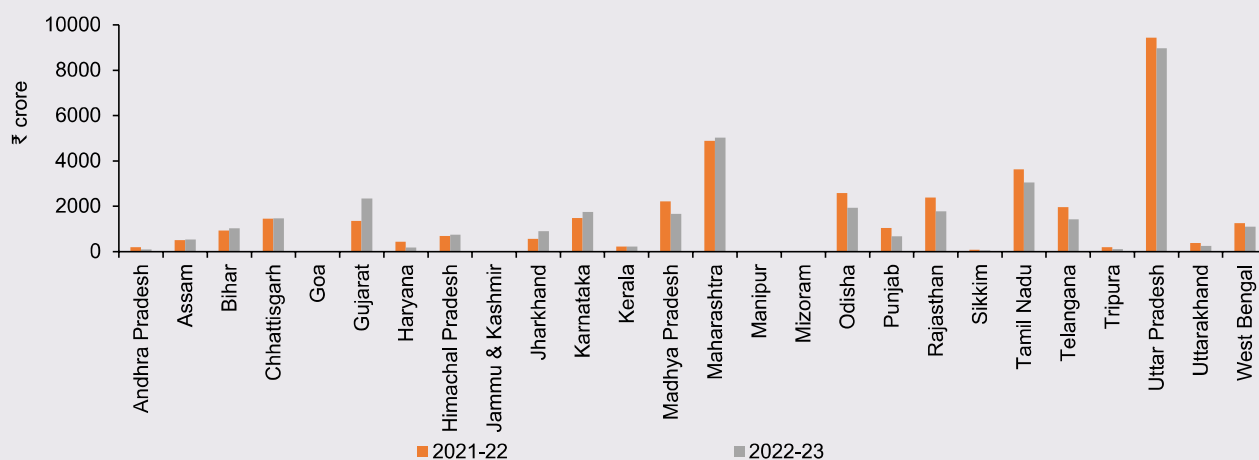
2.7 The average revenue per *Panchayat* from all sources - taxes, non-taxes and grants - was ₹21.2 lakh in 2020-21, ₹23.2 lakh in 2021-

22 and ₹21.23 lakh in 2022-23. The decline in 2022-23 was owing to lesser devolution of grants. Aggregate revenue receipts appear to vary broadly in line with the States' populations (Chart II.1).

2.8 The ratio of revenue receipts of the *Panchayats* to States' own revenues ranges from 0.1 per cent in Andhra Pradesh to 2.5 per cent in Uttar Pradesh, indicating that their revenues are moderate relative to those of the States (Chart II.2). The average revenue per *Panchayat* varied from ₹2.7 lakh in Andhra Pradesh to ₹64 lakh in West Bengal (Chart II.3).

2.9 The own revenues of the *Panchayats* - generated by imposing local taxes, fees, and charges on various activities, including land revenue, professional and trade taxes, and miscellaneous fees – were only 1.1 per cent of their total revenue during the study period (Table II.4). Non-tax revenue - primarily from *Panchayati Raj* programmes and interest earnings – is also

Chart II.1: Aggregate Revenue Receipts of Village Panchayats

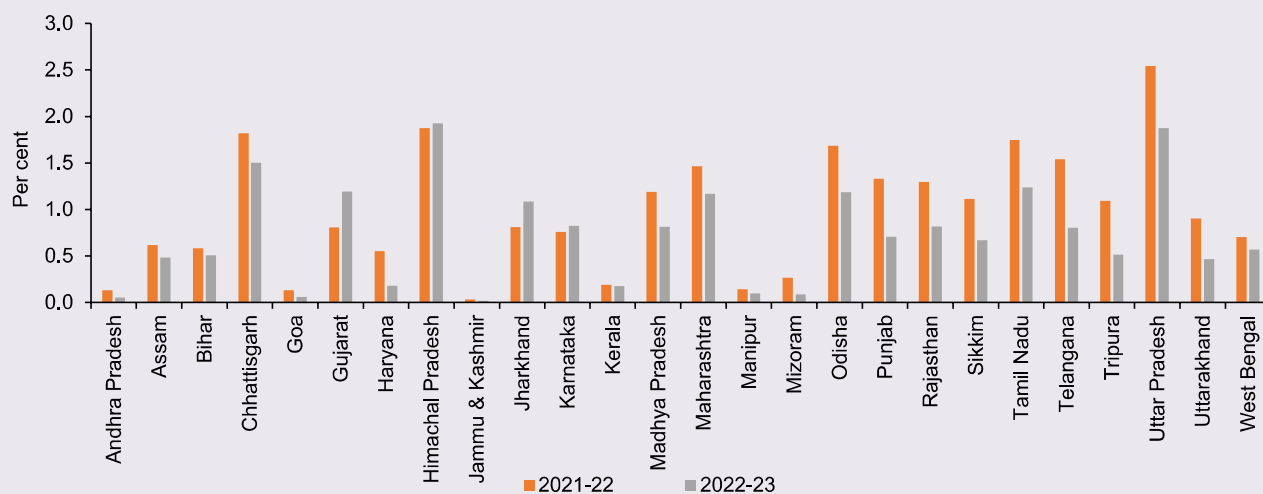


Note: Data pertain to the aggregate of the sample of *Panchayats* in the balanced panel.

Source: MoPR.

Fiscal Position of Panchayati Raj Institutions

Chart II.2: Ratio of Revenue Receipts of *Panchayats* to States' Own Revenue

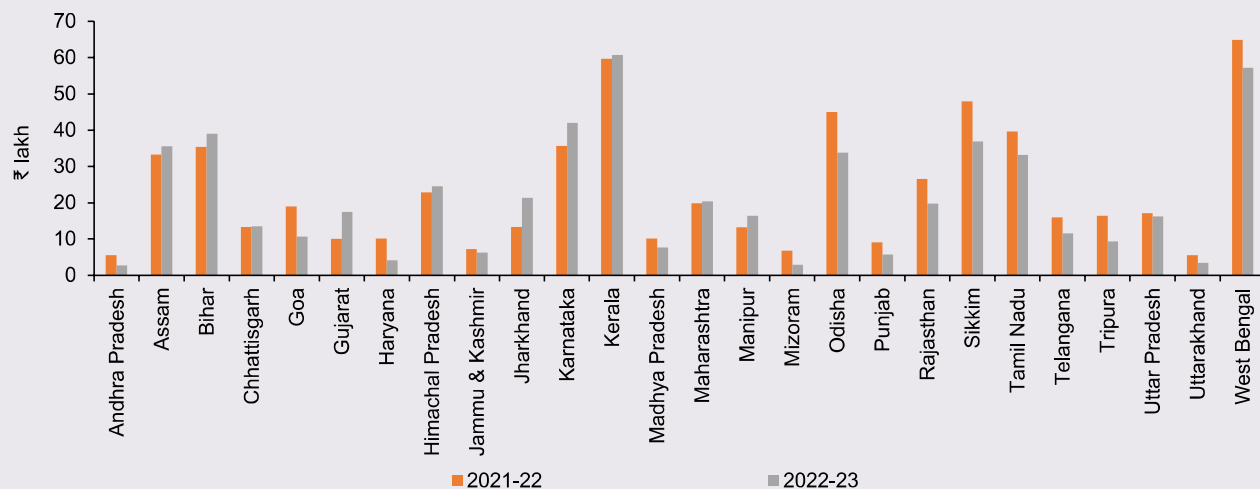


Sources: MoPR, State Finances: A Study of Budgets of 2023-24.

modest, with a share of only 3.3 per cent of their total revenue receipts. *Panchayats* in Tamil Nadu, Himachal Pradesh, Maharashtra, and Telangana reported higher non-tax revenue than

other States (Chart II.4). Maharashtra's high own non-tax revenue in 2022-23 is attributed to significant receipts under the *Panchayati Raj* programmes.

Chart II.3: Average Revenue of Village *Panchayat*



Source: MoPR.

Finances of Panchayati Raj Institutions

Table II.4: Panchayat Finances - Key Ratios for 2020-23

	(Per cent)		
	2020-21	2021-22	2022-23
Own-Tax Revenue to Total Revenue Receipts	1.1	1.1	1.0
States' Grants to Total Revenue Receipts	17.8	15.8	15.4
Central Government's Grants to Total Revenue Receipts	77.5	79.6	79.8
Combined (Centre plus States) Grants to Total Revenue Receipts	95.7	95.7	95.5
Panchayat's Revenue Receipts to GDP at Current Prices	0.21	0.16	0.13
Ratio of Panchayat's Expenditure to GDP at Current Prices	0.13	0.10	0.08

Note:

1. Ratios are calculated using per Panchayat average estimates.
2. Combined grants include grants from Central, State Governments and other institutions.

Source: MoPR.

Table II.5: Revenue Expenditure

	(₹ crore)		
	2020-21	2021-22	2022-23
Revenue Expenditure	24,600	21,248	20,712
Panchayati Raj Programmes	18,377	13,737	13,137
	(75)	(65)	(63)
Water Supply and Sanitation	3,277	4,717	5,616
	(13)	(22)	(27)
Average Revenue Expenditure			
(₹ thousand per Panchayat)			
Revenue Expenditure	1,732	1,388	1,250
Panchayati Raj Programmes	1,400	908	736
	(81)	(65)	(59)
Water Supply and Sanitation	168	324	396
	(10)	(23)	(32)

Note: Figures in parentheses indicate share in total revenue expenditure.

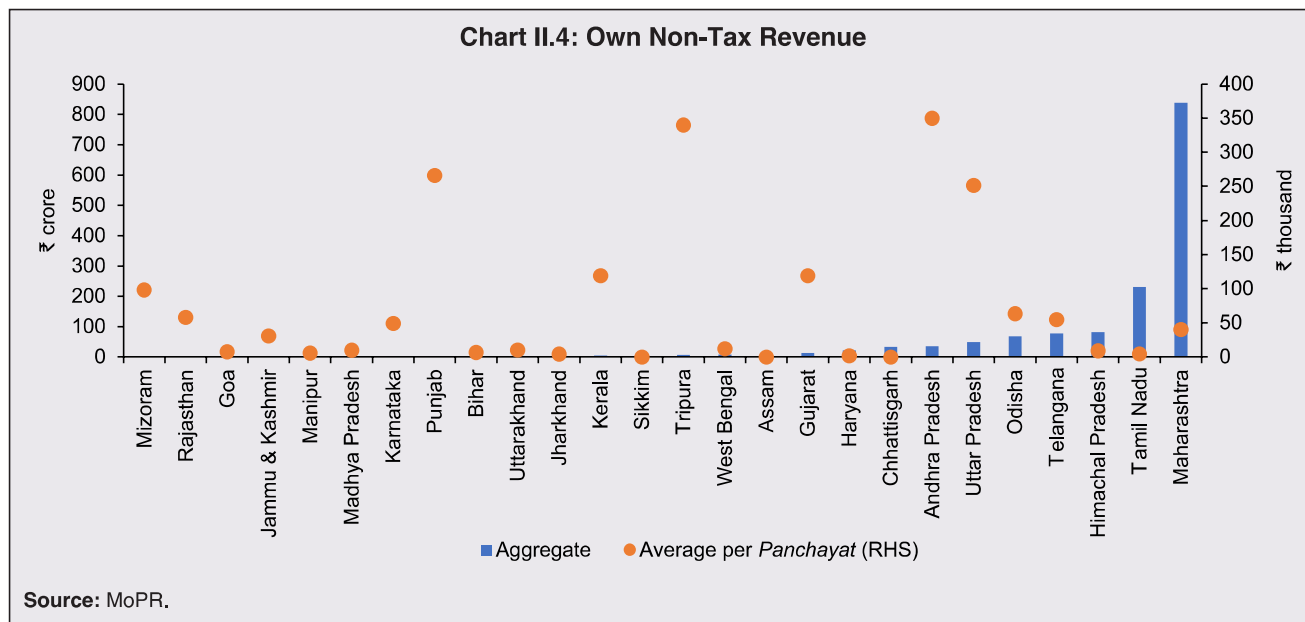
Source: MoPR.

2.2 Expenditure

2.10 The average expenditure per Panchayat decreased from ₹17.3 lakh in 2020-21 to ₹12.5

lakh in 2022-23 (Table II.5) due to higher-than-normal spending in the pandemic year 2020-21. Goa, Karnataka, Odisha, Sikkim, Kerala, and Tamil Nadu recorded the highest

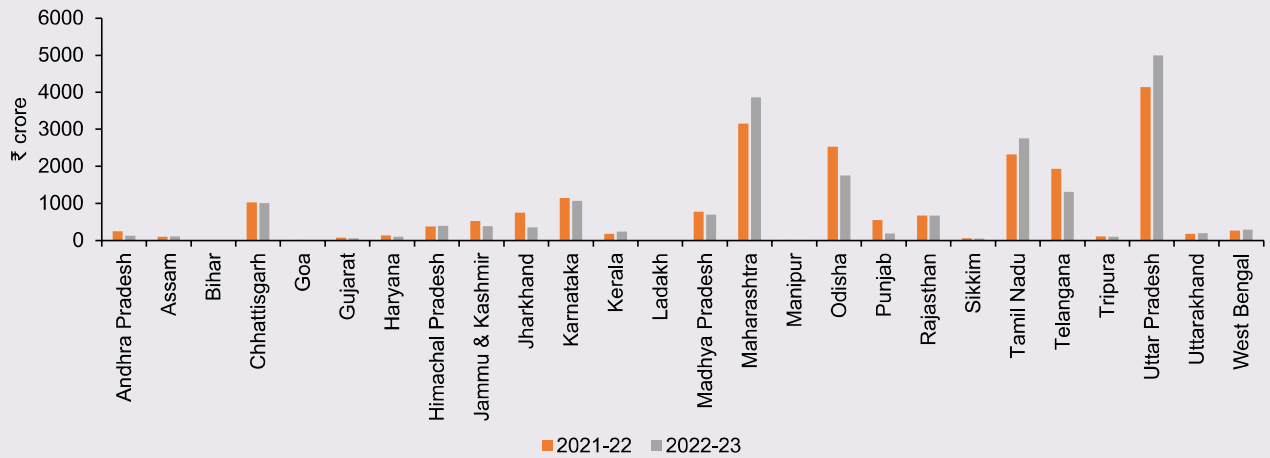
Chart II.4: Own Non-Tax Revenue



Source: MoPR.

Fiscal Position of Panchayati Raj Institutions

Chart II.5: Revenue Expenditure of Panchayats



Note: Data pertain to the aggregate of the sample of Panchayats in the balanced panel.
Source: MoPR.

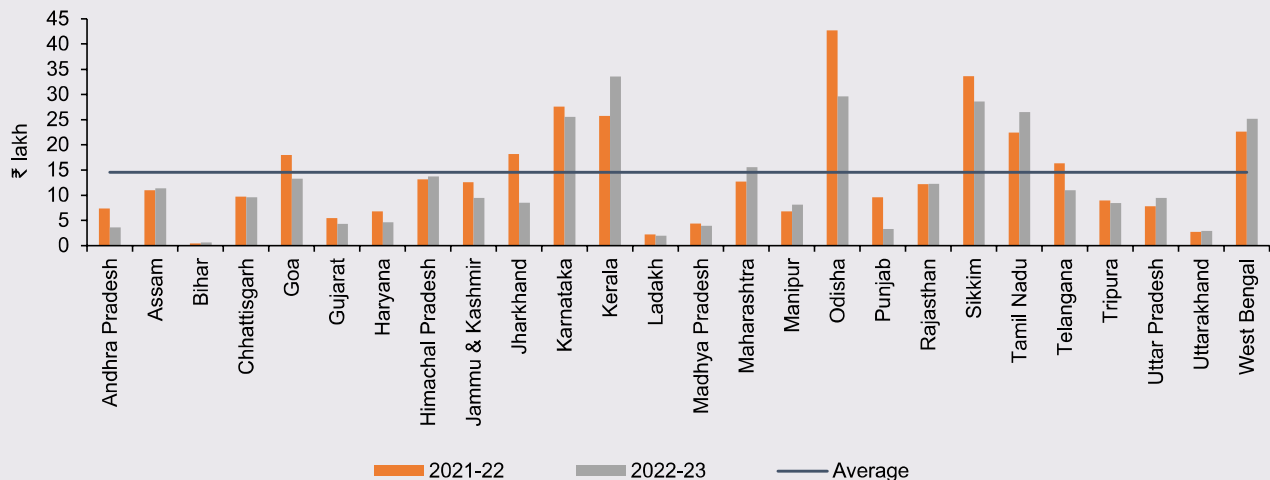
average expenditure at the Panchayat level (Chart II.5 and Chart II.6).

cent for all the States, ranging from 0.001 per cent in Bihar to 0.56 per cent in Odisha (Chart II.7).

2.11 The ratio of revenue expenditure of Panchayats to nominal GSDP is less than 0.6 per

2.12 Regarding the composition of expenditure, there has been a consistent rise in spending on

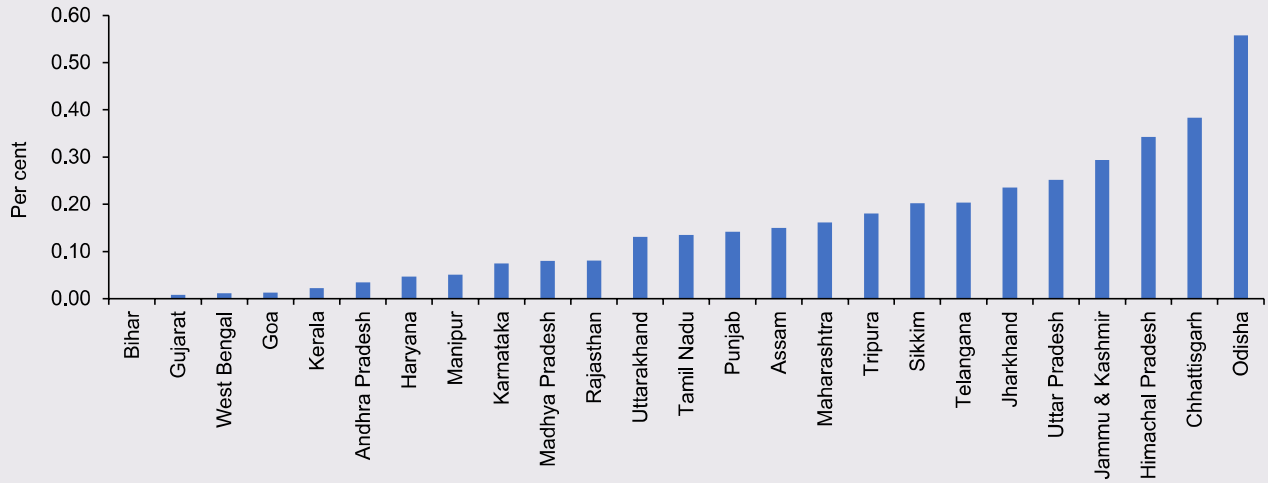
Chart II.6: Average Revenue Expenditure per Panchayat



Source: MoPR.

Finances of Panchayati Raj Institutions

Chart II.7: Ratio of Revenue Expenditure to GSDP in 2020-21

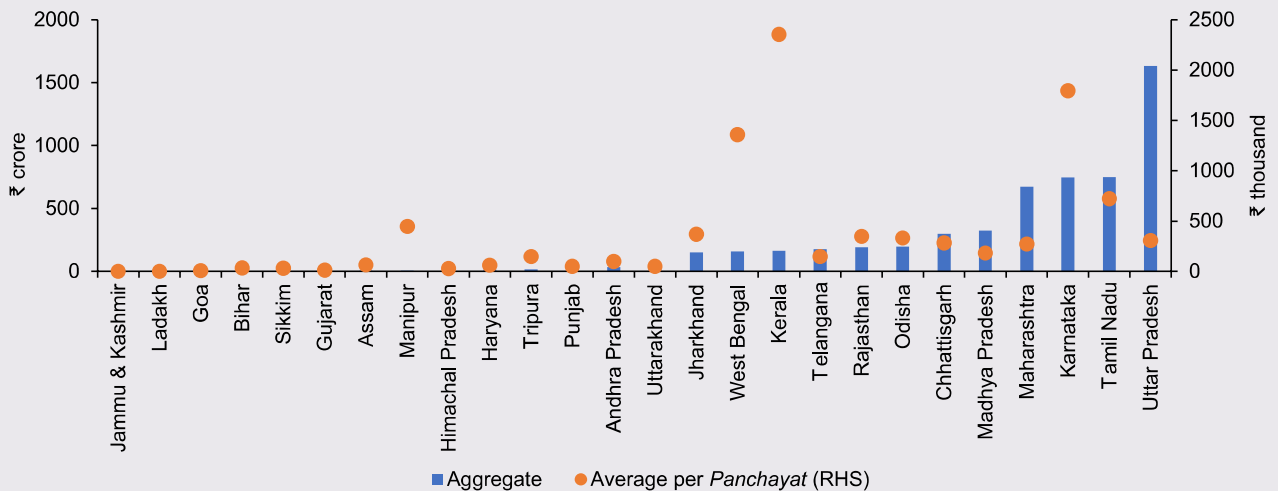


Source: MoPR.

water and sanitation during the sample period, mirroring an increased emphasis on cleanliness

and access to clean water supply; however, there exist inter-State differences (Chart II.8).

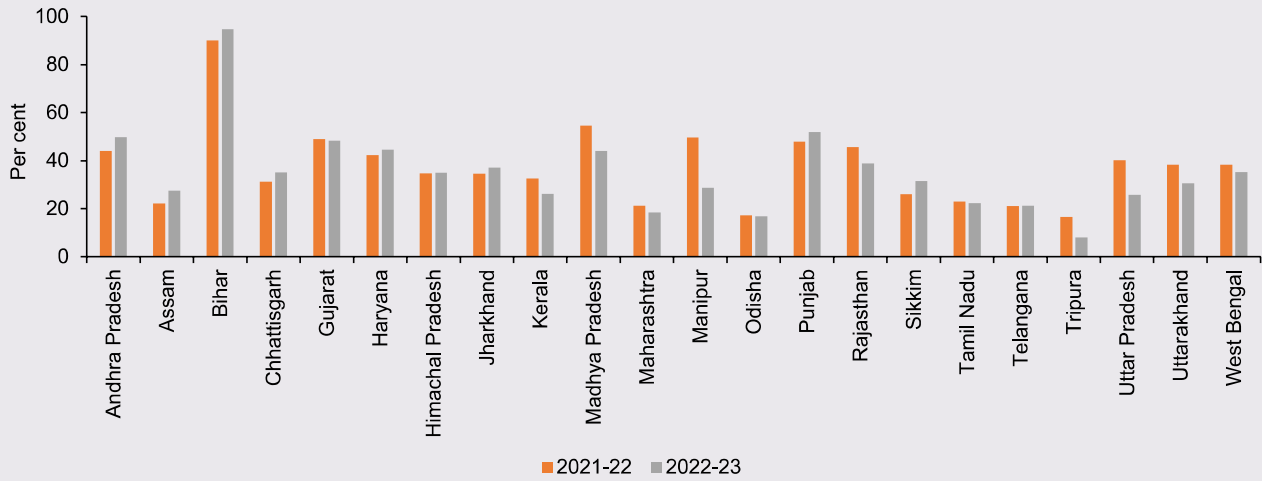
Chart II.8: Revenue Expenditure on Water Supply and Sanitation in 2022-23



Source: MoPR.

Fiscal Position of Panchayati Raj Institutions

Chart II.9: Share of Capital Expenditure in Total Expenditure

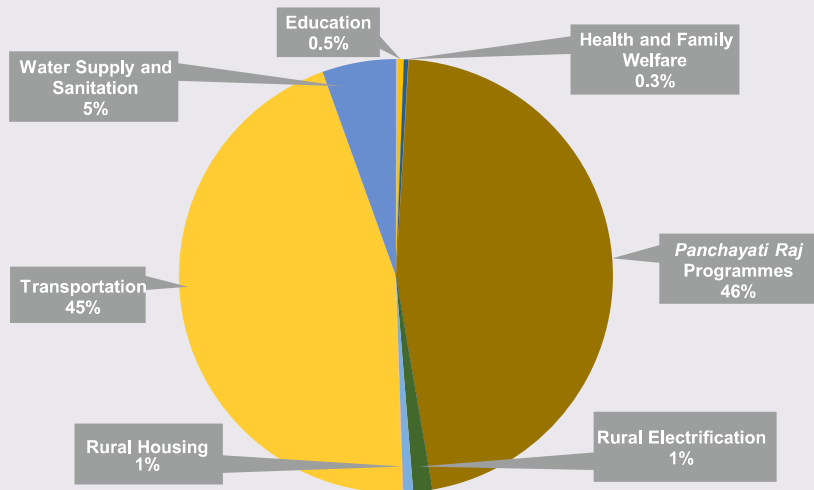


Source: MoPR.

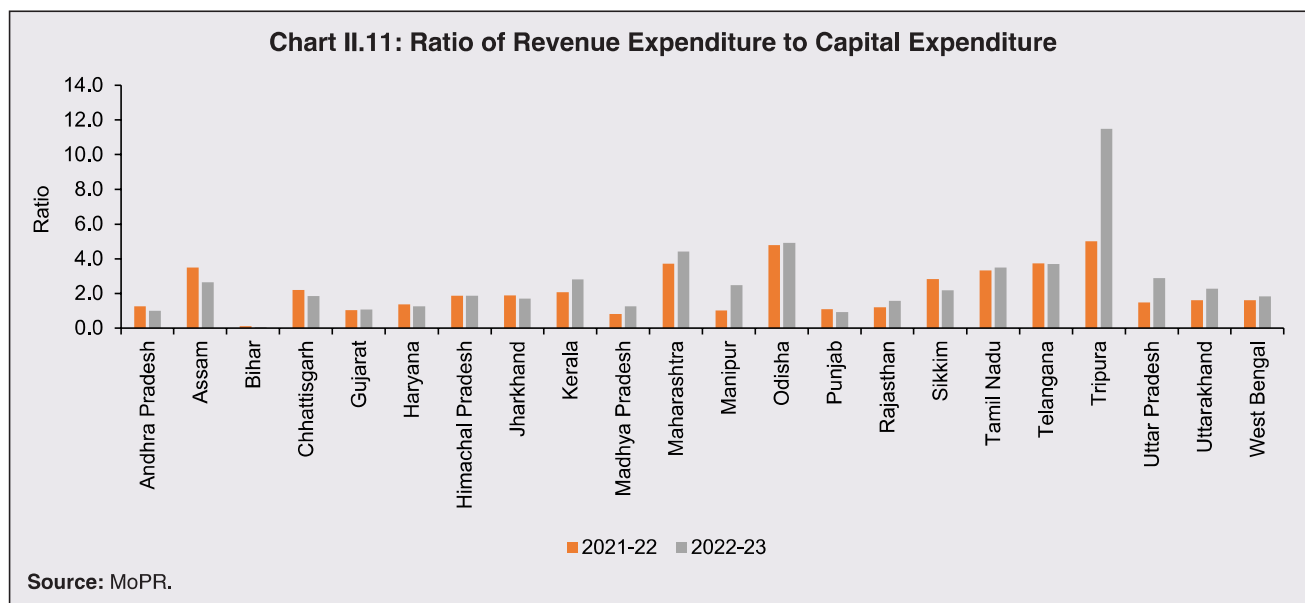
2.13 Investment in capital projects constituted 29.6 per cent of the total expenditure of Panchayats in 2022-23, on average, across States (Chart II.9).

2.14 A significant share of the capital expenditure by PRIs is allocated to Panchayati Raj Programmes, transportation, water supply and sanitation, rural electrification, and rural housing (Chart II.10).

Chart II.10: Composition of Capital Expenditure in 2022-23



Source: MoPR.



2.15 The revenue to capital expenditure ratio averaged 3.2 in 2022-23, and the ratio varied between 0.1 in Bihar and 11.5 in Tripura (Chart II.11).

3. Grants

2.16 Grants from higher tiers of the government are an overwhelming funding source for the PRIs, empowering them to fulfil their mandated

responsibilities and promote development at the grassroots level. Grants are disbursed by the Central Government, based on the recommendations of the Central Finance Commissions (Box II.1) and by the State Governments, based on the recommendations of the State Finance Commissions (Box II.2). They are also allocated through centrally sponsored schemes. The grants come in various forms:

Box II.1: Central Finance Commission Grants to RLBs

After the 73rd and 74th Constitutional Amendment Acts of 1992, six Central Finance Commissions (CFC-X to CFC-XV) have given their recommendations for devolution of grants to rural local bodies (RLBs) so far and these have continuously increased over time (Table II.1.1). Although the Terms of Reference (ToR) of the Tenth CFC (1995-2000) did not specifically require it to make recommendations for the local bodies, it recommended *ad hoc* grants of ₹100 per capita for the rural population, totalling ₹4,381 crore for the five-year period under its purview. Areas exempted from the purview of Part IX and

IX A of the Indian Constitution¹ were also provided these grants. The ToR of all the subsequent CFCs required recommendations for grants to the local bodies.

The Eleventh CFC (2000-05) recommended total grants of ₹8,000 crore to the RLBs for the five-year period under its purview, to be distributed among the States based on population, area, distance from the highest per capita income, revenue effort and index of decentralisation. These grants also encompassed a portion designated for regions

(contd.)

¹ Part IX and IXA of the Constitution were inserted by the Constitution (73rd and 74th Amendment) Act, 1992. Fifth and Sixth Schedule areas were excluded from the 73rd Amendment Act. However, the Act was later extended to the Fifth Schedule areas in 1996.

not covered by the 73rd Amendment Act. This portion was to be allocated to the respective States once they had successfully enacted the necessary legislation for extending the provisions of the Act to the excluded areas. The initial allocation of funds from the grants was to be dedicated to activities such as maintaining accounts and databases. Thereafter, the grants were to be utilised for the provision of core civic services.

The Twelfth CFC (2005-10) recommended total grants of ₹20,000 crore to the RLBs for its award period. While continuing with the horizontal devolution criteria of the Eleventh CFC, it stressed on priority to expenditures on operation and maintenance costs of water supply and sanitation in its recommendations. It did not indicate separate grants for normal and excluded areas, leaving the allocation to the States.

The grants recommended by the Thirteenth CFC (2010-15) were expressed as a proportion of the divisible pool. The grants had two components: (i) general basic grant of ₹41,226 crore available to all the RLBs for the five-year period; and (ii) general performance-based grants totalling ₹21,827 crore accessible only upon fulfilling the conditions related to establishing local body audit systems, budget databases and independent ombudsman systems at the local level. The Commission also recommended ₹1,357 crore as grants for areas excluded from the operation of 73rd Amendment Act.

The Fourteenth CFC (2015-20) recommended total rural local grants of ₹2.0 lakh crore for the five-year period under its purview. 10 per cent of these grants were performance grants linked to (i) providing audited accounts and (ii) demonstration of an enhancement in self-generated revenues. No grants were recommended for the excluded areas. Further, the Commission gave recommendations for strengthening SFCs and augmenting resources at the State and local levels.

The Fifteenth CFC (2021-26) recommended a fixed amount of ₹2.4 lakh crore for the RLBs for the five-year period under its purview. These grants were also meant for the areas outside the purview of the 73rd Amendment Act. 60 per cent of these grants were tied exclusively for water and sanitation-related areas. The Commission specified the online availability of audited accounts as a prerequisite to avail any grant. To ensure the timely transfer of funds to the local bodies, the Commission mandated the release of local body grants by the State governments within ten working days of the receipt of such grants from the Central Government, with a specific interest rate to be paid for any delay beyond the said period.

The actual funds disbursed to the PRIs have been about 5-18 per cent lower than the amounts recommended by the CFCs (Table II.1.1). This was primarily due to the local bodies' failure to meet the conditions attached to the performance grants.

Table II.1.1: Central Finance Commission Grants to RLBs

Central Finance Commission	Quantum of Grants (₹ crore)	Type of Disbursement	Conditions linked with Grants (if any)	Gap in Disbursement (Per cent)
X (1995-2000)	4,381	Absolute	Grants should not be used for giving salaries and wages	18.4
XI (2000-05)	8,000	Absolute	1. Maintenance of accounts to be the first charge. 2. Provision of civic services	17.5
XII (2005-10)	20,000	Absolute	Priority to water supply and sanitation	5.4
XIII (2010-15)	64,408	Proportional of the divisible pool	Performance grants linked to maintaining accounts and audit systems	9.3
XIV (2015-20)	2,00,292	Absolute	Performance grants linked to budget database and improvement in own revenues	10.4
XV (2021-26)	2,36,805	Absolute	1. Online availability of audited accounts as a precondition to avail grants 2. 60 per cent grants tied to be spent on water and sanitation	-

Notes: 1. Proportional grants are expressed as per cent of the divisible pool of taxes (over and above the share of the States); while absolute grants are expressed as fixed sum. For CFC-XIII: allocation recommended was based on actual divisible pool realised.

2. Gap in disbursement is calculated using figures on grants released as a percentage of recommended grants, from the XV CFC Report.

Source: Central Finance Commission Reports.

References:

“Central Finance Commission Reports”, Central Finance Commissions.

Ministry of *Panchayati Raj* (2020), “Utilisation and Impact Evaluation of 14th Finance Commission Grants to *Gram Panchayats* in Selected Indian States”.

Box II.2: State Finance Commission Grants to Local Bodies

Article 243-I of the Indian Constitution stipulates the establishment of State Finance Commissions (SFCs) for recommending tax sharing between the State and the *Panchayats*. The initial SFC was to be constituted within one year of the enactment of the Constitution (73rd Amendment) Act in 1992. Subsequently, new SFCs were to be formed every five years. While the setting up of the sixth SFC was scheduled for all the States in 2019-20, its constitution has not been uniform and timely across States (Chart II.2.1). As per the Fifteenth CFC Report, only 4 States, namely Assam, Bihar, Punjab and Rajasthan, had established their 6th SFCs, and another 11 States had constituted their 5th SFC till then. According to MoPR, only 9 States have constituted their 6th SFC by 2022. Keeping in view the importance of SFC grants for the local bodies, the Fifteenth CFC recommended that the compliance to constitutional provisions in respect of SFC will be a necessary condition for disbursement of grants to local bodies for 2024-25 and 2025-26.

The composition of the divisible pool of resources for determining the vertical devolution of funds between the State and the local governments has varied across States and Commissions. Some SFCs have recommended grants as a portion of own tax revenues of the State, while others have devolved a share of own revenues (*i.e.*, own tax and own non-tax revenues) to the local bodies. Additionally,

some SFCs have recommended devolution based on the State's total revenue, including the State's share in Central transfers. The average annual per capita SFC grants for all the States taken together increased from ₹599 during 2010-14 to ₹1,180 during 2015-19. Bihar, Sikkim, Haryana, Assam, Kerala, Uttarakhand, and Himachal Pradesh accounted for the highest increase in SFC grants (Table II.2.1).

For the 2015-19 period, Odisha, West Bengal and Mizoram had the lowest average annual per capita SFC devolutions while they were above the national average for Kerala and Karnataka (Chart II.2.2). States define the composition of SFC grants differently, and some States include Central transfers in their grants.

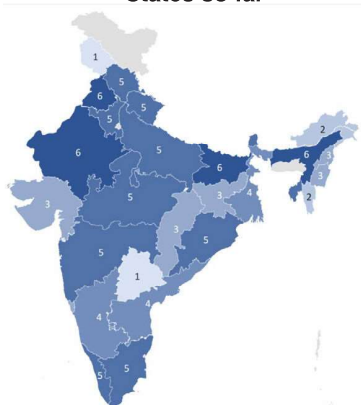
While SFC grants have co-moved with CFC grants (Chart II.2.3), the per capita grants recommended by the SFCs, averaged over the 22 States mentioned in Table II.2.1 have

Table II.2.1: Average Annual Per Capita SFC Grants (in ₹)

State	2010-14	2015-19	Per cent change
Odisha	209.4	146.7	-29.9
West Bengal	111.5	152.3	36.5
Uttar Pradesh	315.5	449.5	42.4
Manipur	697.0	1,002.7	43.8
Tamil Nadu	902.5	1,426.2	58.0
Punjab	287.6	456.5	58.7
Rajasthan	291.6	471.9	61.7
Chhattisgarh	307.3	504.0	63.9
Karnataka	3,212.2	6,090.0	89.5
Himachal Pradesh	182.3	367.1	101.3
Uttarakhand	644.7	1,361.2	111.1
Kerala	1,405.4	2,999.7	113.4
Assam	168.2	431.0	156.2
Haryana	250.4	737.8	194.6
Sikkim	47.5	212.4	347.2
Bihar	61.6	356.7	478.5
Andhra Pradesh	421.4	NA	-
Gujarat	433.5	NA	-
Madhya Pradesh	NA	421.5	-
Maharashtra	1,087.9	NA	-
Mizoram	NA	149.1	-
Tripura	152.6	NA	-
All States Average	599.0	1,179.6	96.9

Source: NIPFP, 2018.

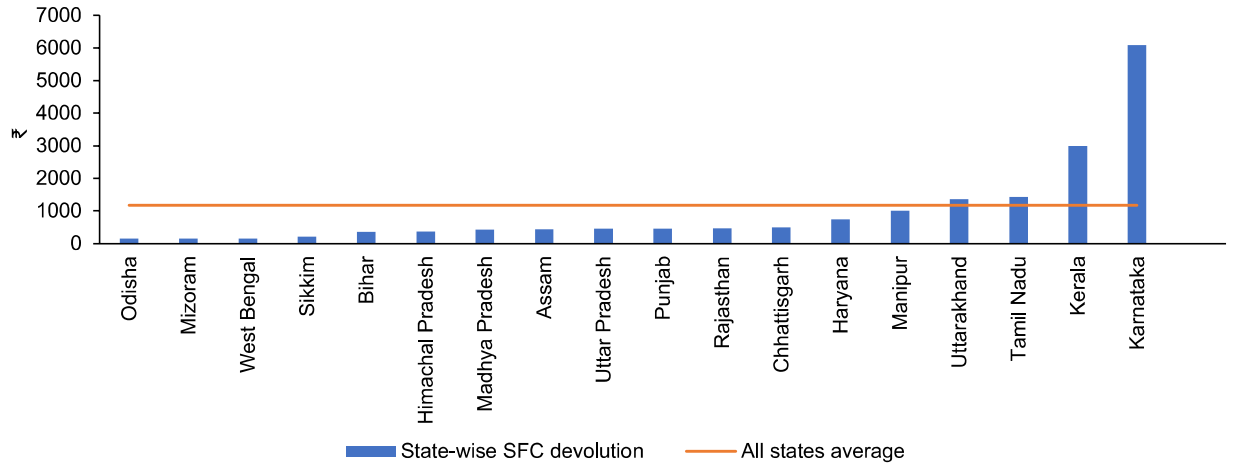
Chart II.2.1: Number of SFCs Constituted by the States so far



Note: Telangana was formed in 2014. Chhattisgarh, Jharkhand, and Uttarakhand gained Statehood in 2000. Mizoram, Nagaland and Meghalaya have been exempted from constituting SFCs. However, Nagaland and Mizoram have constituted SFCs.
Source: XV Central Finance Commission Report.

(contd.)

Chart II.2.2: Average Annual Per Capita SFC Devolution (2015-16 to 2019-20)

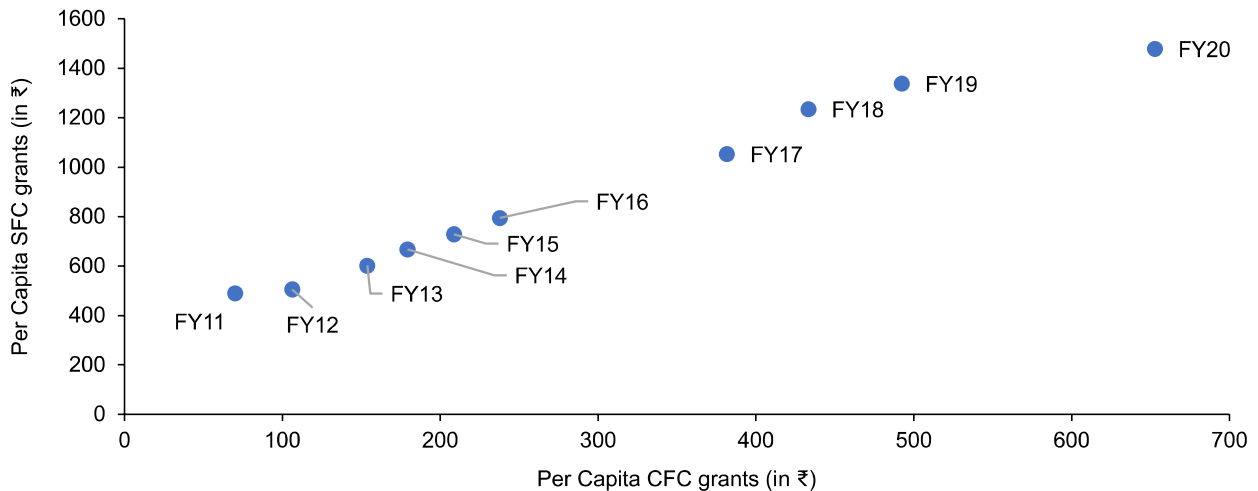


Source: NIPFP, 2018.

been consistently higher than the grants recommended by the CFCs (Chart II.2.4). Although CFC grants increased from 14.3 per cent of the SFC grants (of selected States) in 2010-11 to 44.2 per cent in 2019-20, SFC grants remain a vital source of funds for the local bodies.

Apart from the assignment of State taxes to local bodies, there has been a wide variety of grants recommended by the SFCs. They include grants for the maintenance of assets (recommended by the SFCs of Andhra Pradesh, Gujarat, Madhya Pradesh, Odisha, and Tamil Nadu). Some SFCs like in Assam, Chhattisgarh, Haryana and Gujarat

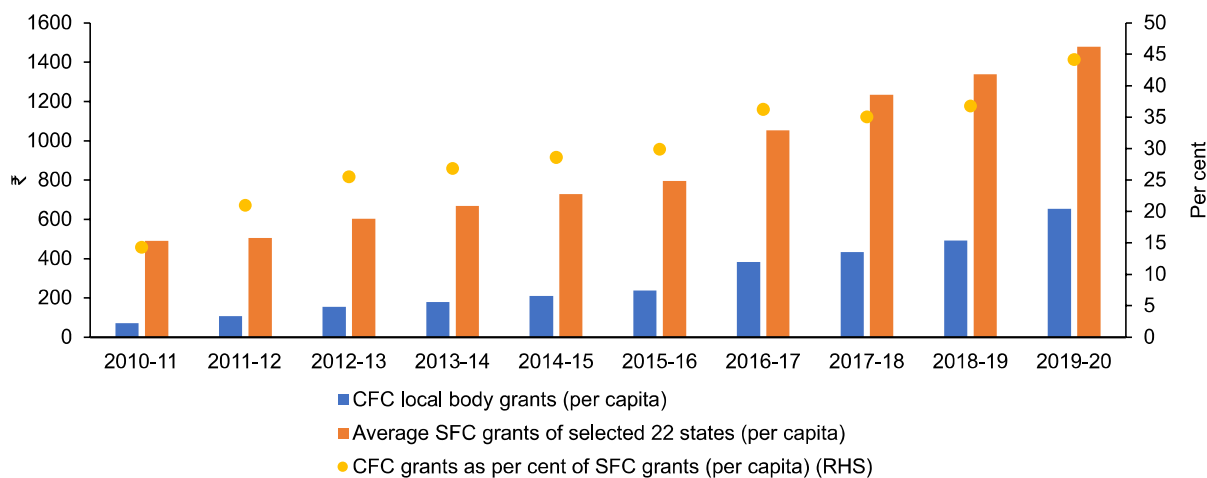
Chart II.2.3: Correlation between Per Capita CFC and SFC Grants (Average of 22 States)



Source: NIPFP, 2018.

(contd.)

Chart II.2.4: SFC Grants vis-à-vis Central Finance Commission Grants (Per Capita)



Source: NIPFP, 2018.

have recommended lump sum grants, *ad hoc* grants, specific needs grants, one-time grants, and special purpose grants. SFCs in Karnataka and Rajasthan recommended untied grants. Performance grants were recommended by the SFCs of Chhattisgarh, Karnataka, Maharashtra, Odisha, Punjab, Rajasthan, and West Bengal in order to incentivise revenue collection by the local bodies.

References:

Chakraborty, P., Gupta, M., & Singh, R. K. (2018), Overview of State Finance Commission Reports, National Institute of Public Finance and Policy, New Delhi.
 15th Central Finance Commission Report, 2020.

- **Untied Grants:** also known as general-purpose grants, these are provided without specific conditions or restrictions and they can be utilised by PRIs on the basis of local priorities and needs.
- **Tied Grants:** earmarked for specific purposes or sectors, such as sanitation, education, healthcare, or infrastructure development, these grants ensure that funds are directed towards the targeted areas of development as determined by higher levels of government.
- **Performance-based Grants:** based on the recommendations of some CFCs to link grants to specific performance criteria, PRIs

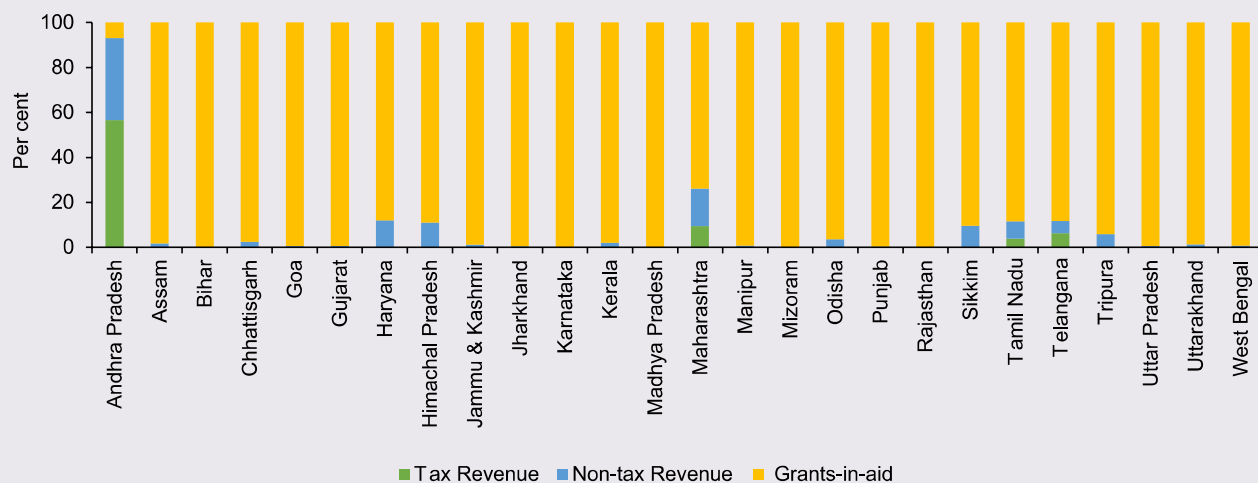
that demonstrate effective governance, financial management, and successful implementation of development projects may receive additional funds as incentives for their performance.

- **Special Category Grants:** these grants are designed to address unique challenges or particular needs of PRIs in specific regions or contexts and provide additional financial support to regions facing particular socio-economic or geographical constraints.

2.17 At the *Panchayat* level, grants are the principal revenue source, with a share of over 95 per cent on average across States (Chart II.12). This is in contrast with the composition

Fiscal Position of Panchayati Raj Institutions

Chart II.12: Components of Revenue of *Panchayats* in 2022-23

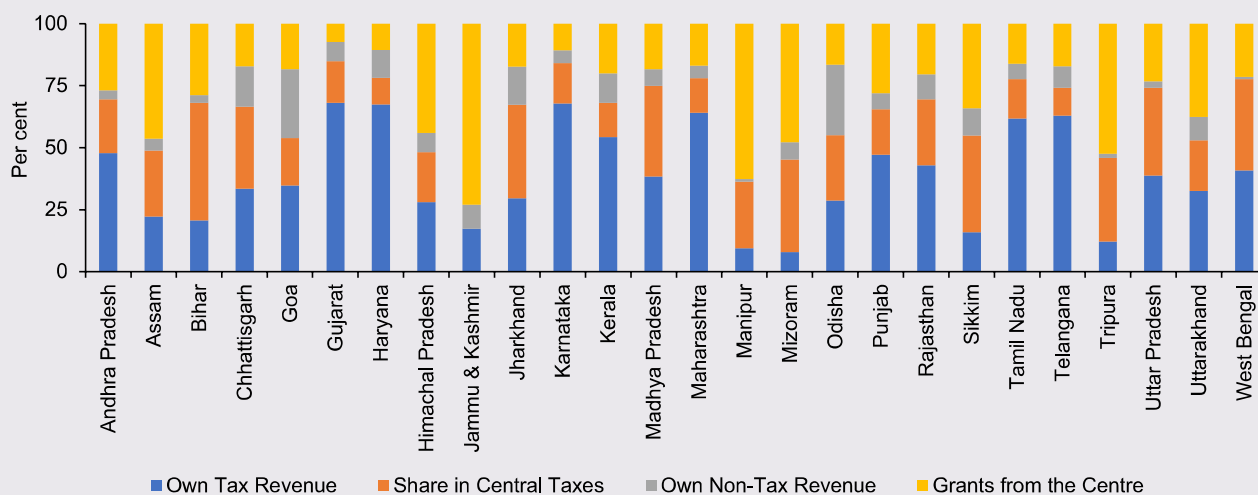


Source: MoPR.

of States' revenue receipts - own tax and non-tax revenue comprise more than 50 per cent of the total revenue receipts for most States (Chart II.13). In a few States such as Andhra Pradesh, Haryana, Himachal Pradesh,

Maharashtra, Tamil Nadu, and Telangana, *Panchayats* have managed to generate relatively higher own revenues. The grants help to reduce horizontal disparities among the *Panchayats* (Box II.3).

Chart II.13: Components of State's Revenue Receipts in 2022-23



Source: State Finances: A Study of Budgets of 2023-24.

Box II.3: Grants-in-Aid and Horizontal Disparities

There are notable differences in the distribution of grants-in-aid to PRIs across States and years (Charts II.3.1a and 1b). The intra-State disparity in the distribution of grants-in-aid is low in Kerala and West Bengal and high in Andhra Pradesh, Haryana, and Jammu and Kashmir.

To assess the relationship between grants and horizontal disparities, the deviations of each *Panchayat's* revenue (excluding grants) from the respective State-wise mean revenues (excluding grants) are divided into negative and positive deviations. A fixed effects regression is then estimated on grants-in-aid received by the PRI to the 'deviation from mean' variable as defined above. The regression results indicate that the *Panchayats* with lower own revenues than the mean revenue (*i.e.*, Deviation<0) get more grants, on average. On the other hand, no significant association is found between the deviation from mean revenue and grants-in-aid if the revenues are higher

than the mean revenue. These results suggest that grants-in-aid mitigate horizontal disparities among the *Panchayats* (Table II.3.1).

Table II.3.1: Grants-in-Aid and *Panchayat* Revenues

	Grants	Grants
	Deviation<0	Deviation>0
Deviation from Mean	0.632*** (3.820)	0.0349 (0.820)
Deviation Squared	-0.000*** (-7.08)	0.000 (0.540)
Constant	1811027.1*** (62.84)	2792390.5*** (111.13)
N	36798	16605
adj. R-sq	0.628	0.899

Source: RBI staff estimates.

Chart II.3.1a: State-wise Inequality in Grants in Aid: Theil's Index

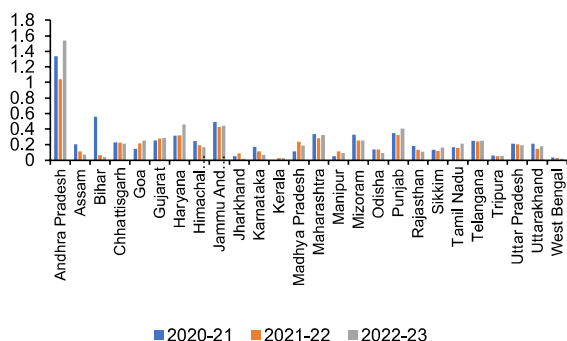
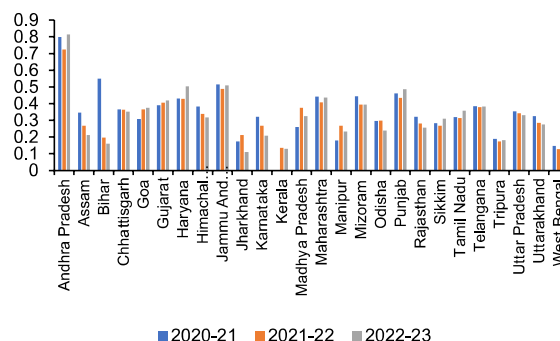


Chart II.3.1b: State-wise Inequality in Grants in Aid: Gini Coefficient



Note: Thiel's Index and Gini Coefficient are estimated based on State-wise *Panchayat*-level data. Both the Gini coefficient and Thiel index measure inequality. The Gini coefficient focuses on the overall distribution and is based on the Lorenz curve, while the Thiel index considers overall and subgroup inequality using the concept of entropy. The Gini coefficient varies between 0 and 1, with 0 corresponding to no disparity, *i.e.*, each *Panchayat* receives equal grants-in-aid, and 1 corresponding to perfect inequality, *i.e.*, only one *Panchayat* would receive all the grants-in-aid. The Thiel's index measures the difference between the equality of a *Panchayat* in the population of the State and the weight of its grants-in-aid in the total grants-in-aid by the State. An index of 0 indicates absolute equality, while an index of 1 indicates complete inequality.

Source: RBI staff estimates.

4. Conclusion

2.18 An analysis of the financial situation of *Panchayats* for the period 2020-21 to 2022-23 reveals that nearly all of their revenues are through grants from higher levels of government, underscoring their heavy reliance on the Central and State governments for financial resources. On the expenditure side, there is a discernible upward

shift in investment in water supply and sanitation, with the most allocations to the *Panchayati Raj* Programme. It would be prudent for the *Panchayats* to reduce their heavy dependence on grants by deploying the tax and non-tax instruments available to them to raise resources. This would help them to improve the quality of their services in rural areas and strengthen the rural economy.

Annex

Data and Methodology

In the streamlined classification system under the Model Accounting System, the initial four-digit categorisation pertains to the primary category denoting functions outlined

in the 11th Schedule of the Constitution. The subsequent three-digit classification designates the sub-category indicative of the program or unit of expenditure. All the 29 functions listed in the Eleventh Schedule of the Constitution are subsumed under 23 distinct major heads.

Table A.1: Account Structure of Panchayats

Sr. No.	Revenue Receipts	Major Code	Sr. No.	Revenue Expenditure	Major Code
I.	Own Tax Revenue		1	Agriculture including Agriculture Extension	2435
1	Taxes on Profession Trades <i>etc.</i>	0028	2	Animal Husbandry Dairying Poultry and Fuel and Fodder	2403
2	Land Revenue	0029	3	Art Culture and Libraries	2205
3	Stamps and Registration Fees	0030	4	Education	2202
4	Taxes on Property other than Agri. Land	0035	5	Fisheries	2405
5	Taxes on Vehicles	0041	6	Forestry	2406
6	Taxes on Goods and Passengers	0042	7	Health and Family Welfare	2210
7	Service Tax	0044	8	Interest Payments	2049
8	Taxes on Duties and Commodities	0045	9	Maintenance of Community Assets	2059
II.	Own Non-Tax Revenue		10	Market and Fairs	2206
1	Interest Receipts	0049	11	Minor Irrigation	2702
2	Maintenance of Community Assets	0059	12	Non-Conventional Sources of Energy	2810
3	Education	0202	13	Panchayati Raj Programmes (i-iv)	2515
4	Market and Fairs	0206	(i)	District Panchayat Programmes	2515-101
5	Health and Family Welfare	0210	(ii)	Gram Panchayat Programmes	2515-103
6	Water Supply and Sanitation	0215	(iii)	Other Expenditure	2515-800
7	Rural Housing	0216	(iv)	Panchayat Samiti Programmes	2515-102
8	Animal Husbandry Dairying Poultry and Fuel and Fodder	0403	14	Pension and Other Retirement Benefits	2071
9	Fisheries	0405	15	Poverty Alleviation Programme	2501
10	Forestry	0406	16	Public Distribution System	2408
11	Agriculture including Agriculture Extension	0435	17	Rural Electrification	2801
11	Panchayati Raj Programmes	0515	18	Rural Housing	2216
13	Minor Irrigation	0702	19	Social Security and Welfare	2235
14	Rural Electrification	0801	20	Soil and Water Conservation	2402
15	Village and Small Scale Industries	0851	21	Technical Training and Vocational Education	2203
III	Grants-in-aid	1601	22	Transportation	3054
1	Grants from Central Government	1601-101	23	Village and Small Scale Industries	2851
2	Grants from other Institutions	1601-102	24	Water Supply and Sanitation (i-vi)	2215
3	Grants from State Government	1601-103	(i)	Maintenance and Repair of Tube-wells	2215-102
			(ii)	Maintenance of Water Supply line	2215-101
			(iii)	Other Expenditure	2215-800
			(iv)	Sewage and Solid Waste Management	2215-104
			(v)	Sewerage and Sanitation	2215-103
			(vi)	Storm water drainage	2215-105
			25	Welfare of Scheduled Castes, Scheduled Tribes and Other weaker sections	2225
			26	Women and Child Welfare	2211

Source: eGramSwaraj, MoPR.

(contd.)

Data Collection

To ensure consistency and uniformity in the dataset, a structured data template was designed, based on the codified accounting structure for *Panchayats* (Table A.1). This template encompassed both Major and Minor Account Codes, effectively encapsulating the full breadth of financial transactions. The template was shared with the MoPR, and the data received (Table A.2) were subjected to consistency checks to arrive at a balanced panel.

Table A.2: Coverage of Village *Panchayats*

	Revenue Receipts	Revenue Expenditure	Capital Receipts	Capital Expenditure
2020-21	240810	229936	3298	93244
2021-22	249077	240710	2909	93482
2022-23	240895	238039	2611	83194
Average	243594	236228	2939	89973
Share (%)	95.3	92.4	1.1	35.2

Source: MoPR.