

# IV

## Way Forward

4.1 Finances of *Panchayati Raj* Institutions (PRIs) face constraints in that they have limited own revenues from property taxes, fees, and fines. Nearly all of their revenues are generated through grants from higher levels of government, underscoring their heavy reliance on the Central and State governments. Even as grants-in-aid from the upper tiers of government have aimed at mitigating horizontal disparities, the large dependence on grants can affect their financial self-reliance, limiting their ability to decide on local spending and priorities independently. Such dependence also lessens their drive to establish independent revenue streams. For sustainable growth, *Panchayats* need to intensify their efforts to augment their own tax and non-tax revenue resources and improve their governance. Nevertheless, the prompt establishment of State Finance Commissions (SFCs), eschewing the sizeable delays that occur currently, assumes importance. SFCs, with roles identical to those of the Central Finance Commission (CFC), and with the obligation of tabling their action-taken reports in State legislatures, can fortify the financial position of PRIs and help them in better delivery of their responsibilities for upliftment of the rural economy.

4.2 PRIs, on their part, can use their limited resources more efficiently and effectively through measures such as transparent budgeting and fiscal discipline, active involvement of the local community to prioritise development needs, staff training, robust monitoring and evaluation processes, prudent asset management, raising public awareness and adopting digital tools. A comprehensive evaluation of PRIs' fiscal position

and quality of expenditure is constrained by the lack of availability of adequate and appropriate data. There are more instances of non-reporting for revenue expenditure relative to revenue receipts, while the reporting for capital receipts and capital expenditure is even poorer. Reporting their finances in standardised formats would strengthen fiscal transparency and accountability at the *Panchayat* level, thereby contributing significantly to the empowerment of *Panchayats*.

4.3 Financially and functionally empowered PRIs can also contribute actively to climate change resilience. Due to their proximity to communities and possession of valuable local knowledge about the environment, PRIs are well-equipped to identify climate-related risks and devise effective adaptation strategies. PRIs can also facilitate the adoption of climate-resilient farming methods, and promote renewable energy sources like solar panels and biogas plants, thus reducing reliance on fossil fuels and mitigating climate change. A part of the grants-in-aid from the upper tiers of the government could be linked to climate resilience efforts of PRIs.

4.4 Overall, given the pivotal role of PRIs in local governance and rural development in India, it is imperative to empower local leaders and officials by providing them with ample and diverse funding sources, promoting greater decentralisation, implementing capacity-building programs, and upgrading infrastructure. There is also a need to raise citizens' awareness about the functions and significance of PRIs by encouraging their increased participation in local governance processes and by enhancing people-centric administration and communication.

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