

FOREWORD

Fiscal Performance at the Grassroots

Comprehensive general government finance statistics encompassing all the three tiers of government – centre; states; and local bodies – enrich the analysis of public finances and foster a better appreciation of the role of fiscal policy in social and economic development. Hence, it has been the endeavour of the Reserve Bank of India (RBI) to expand its analysis of public finances beyond the Central and State governments to lower tiers that have hitherto drawn scanty attention but are vital from the point of view of socio-economic development at the grassroots. The first effort to bridge this gap took the form of the publication on municipal finances in November 2022, which covered around 70 per cent of the value of receipts of the total Urban Local Bodies (ULBs). This Report presents an analysis of the fiscal position of the Panchayati Raj Institutions (PRIs), covering around 75 per cent of the total number of Rural Local Bodies (RLBs) in India.

Panchayati Raj Institutions (PRIs) are engaged in fulfilling the aspirations of India's rural societies. The vision driving policy initiatives, including through recommendations of various Finance Commissions and constitutional amendments, is to enhance transparency and accountability at the Panchayat level and contribute to their empowerment. Lack of adequate own revenues and heavy reliance on grants from higher levels of government notwithstanding, there is a discernible upward shift in investment by PRIs within their efforts towards the upliftment of rural India. Better and more efficient deployment of tax and non-tax instruments would help them to improve the quality of their services and the level and depth of their developmental efforts.

Despite daunting financial challenges, Panchayats remain critical to providing local governance, empowering local leaders and officials, increased decentralisation and infrastructure upgradation. Committed efforts from policymakers, local leaders and citizens will fortify the functioning of PRIs and expand inclusive and sustainable grassroots development. Key to this aspiration is financial self-reliance, which, in turn, will empower PRI spending decisions that take into account local needs and priorities. PRIs, on their part, can use their resources more efficiently and effectively, and along with 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.

The Report further points out that 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 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.

There is a need to raise awareness about the functions and significance of PRIs in local governance processes and in enhancing people-centric administration and communication. This Report is a step in that direction. It has been prepared in the Division of Local Finances (DLF) of the Department of Economic and Policy Research (DEPR) under the supervision of Shri Muneesh Kapur, Executive Director. Dr. Deba Prasad Rath, Principal Adviser, DEPR, provided overall guidance. The DLF team was led by Dr. Somnath Sharma, Director, and comprised Shri Nalin Priyaranjan, Assistant General Manager, and Ms. Shivani Agarwal, Manager.

Comments and suggestions from Dr Sitikantha Pattanaik, former Executive Director, are gratefully acknowledged. Dr. Raj Rajesh, Shri Gopal Prasad, Directors, Smt. Barkha Gupta, Shri Yogesh H C, Shri Shivam and Shri Ranajoy Guha Neogi, Managers, made valuable contributions to the Report. The contribution of the Ministry of Panchayati Raj (MoPR), particularly Shri Alok Prem Nagar, Joint Secretary, MoPR, and his team in making data available is greatly appreciated. The team also benefited from several rounds of discussions with officials of the MoPR.

This Report is available on the Reserve Bank's website (www.rbi.org.in). Feedback/comments to help improve the analytical and informational content of the Report may be sent to the Director, Division of Local Finances, Department of Economic and Policy Research, Reserve Bank of India, 1st Floor, Maratha Mandir Road, Mumbai-400 008 or through e-mail.

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January 24, 2024