IRJIF I.F. : 5.019

North Asian International Research Journal of Social Science & Humanities

ISSN: 2454-9827 Vol. 12, Issue-6 June-2026

Index Copernicus Value: 57.07 Indian Citation Index Thomson Reuters ID: S-8304-2016

NAIRJC UGC-Aligned | HEI-Approved Peer Reviewed Refereed Journal (Under New UGC Guidelines)

DOI: doiglobal.org/10.2026/NAIRJCSSH.031

FISCAL DECENTRALISATION AND THE CAPACITY OF PANCHAYATI RAJ INSTITUTIONS IN INDIA

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ABSTRACT

Local self-government requires more than elections: panchayats need authority, staff, and predictable resources to plan and deliver public services. This paper examines fiscal decentralisation in India through a qualitative review of constitutional provisions, Finance Commission reports, and the Ministry of Panchayati Raj's Devolution Index. It distinguishes the legal power to raise and spend money from the actual capacity to use it. The analysis argues that grants improve the resource base but do not by themselves resolve delayed transfers, limited own-source revenue, fragmented administrative control, and weak planning capacity. A more meaningful measure of decentralisation asks whether a panchayat can identify local priorities, obtain funds on time, execute decisions, and account publicly for results. This is a desk-based review and does not present original district fieldwork.

KEYWORDS: fiscal decentralisation; Panchayati Raj; local governance; State Finance Commission; public accountability; India

INTRODUCTION

The democratic case for decentralisation rests on the expectation that decisions made near citizens can respond to local needs and be scrutinised locally. In practice, the quality of local government depends on the alignment of responsibilities with resources and administrative powers. A panchayat charged with maintaining assets, preparing plans, or delivering services cannot exercise meaningful discretion if funds arrive late or can only be used for narrowly predetermined purposes.

The Constitution's 73rd Amendment created an institutional framework for elected panchayats, but left substantial powers over devolution with the states. Article 243H permits state legislatures to authorise panchayats to levy and collect specified taxes and to receive assigned revenues or grants. Article 243I provides for a State Finance Commission every five years to review panchayat finances and recommend measures. These provisions establish mechanisms, not an automatic uniform level of fiscal autonomy across states (Government of India, 1992).

OBJECTIVES AND METHOD

This paper has three objectives: to explain the constitutional and intergovernmental framework of panchayat finance; to identify the difference between grant availability and local fiscal capacity; and to propose criteria for evaluating effective devolution. It uses a narrative review of official constitutional and Finance Commission material, together with Ministry of Panchayati Raj assessments. It neither constructs a new quantitative index nor claims causal estimates. Sources cover different years and should not be combined as though they describe one simultaneous fiscal snapshot.

THE FRAMEWORK OF LOCAL PUBLIC FINANCE

Local finance has several components. Own-source revenue may come from taxes, fees, and charges authorised under state law. Transfers may include state assignments, State Finance Commission-related flows, centrally supported schemes, and grants recommended by the Union Finance Commission. Each source differs in predictability and permitted use. A grant that is adequate on paper can be difficult to deploy when a local body lacks technical staff, timely releases, procurement support, or reliable accounts.

The Fifteenth Finance Commission recommended significant grants for rural local bodies during 2021–26. The Department of Expenditure and Ministry of Panchayati Raj publish guidelines and grant information for that award period (Department of Expenditure, n.d.; Ministry of Panchayati Raj, 2026a). The Sixteenth Finance Commission's report covers 2026–31 and includes a chapter on local bodies (Sixteenth Finance Commission, 2025). The changing award periods underline why analysis must specify both the recommendation and the release or expenditure being discussed.

Fiscal decentralisation is intertwined with functional and administrative devolution. The Ministry's 2024 Devolution Index, released in 2025, assesses states on framework, functions, finances, functionaries, capacity enhancement, and accountability (Ministry of Panchayati Raj, 2025). This multidimensional approach is useful because a panchayat cannot convert a budget into outcomes if the relevant staff answer elsewhere or if it lacks authority over the activity being financed.

KEY CONSTRAINTS

First, the formal assignment of expenditure responsibilities may outpace revenue powers. Many services yield broad social benefits but provide a narrow local tax base, creating a structural need for transfers. The policy issue is therefore not to eliminate grants; it is to design transfers that arrive predictably and leave appropriate room for local priorities. Published recommendations, releases, and actual spending should be distinguished in any assessment.

Second, tied funds can help protect essential purposes but may limit adaptation when local needs differ. Untied funds allow greater discretion but require stronger public accounting. A sensible balance depends on clearly stated service standards, transparent budgets, and the capacity to examine whether spending produced an asset or service that residents can use.

Third, administrative capability affects absorption. Engineering estimates, procurement, accounting, social audit, and maintenance planning require personnel and information systems. Training without stable staff support may have limited effect. The Ministry describes eGramSwaraj as a platform for decentralised planning, progress reporting, financial management, and work-based accounting (Ministry of Panchayati Raj, 2026b). Digital records can improve visibility when entries are timely and verifiable; they do not replace local oversight.

A FRAMEWORK FOR ASSESSING EFFECTIVE DEVOLUTION

A useful assessment should ask four questions. Does the panchayat have a clearly assigned function? Can it obtain predictable funds and exercise discretion consistent with the task? Does it have staff and technical support to implement a decision? Can residents and auditors see plans, releases, expenditure, and completed works? The answers can be recorded by tier and by service, rather than compressed into a single headline grant figure.

For a district-level study, researchers could compare sanctioned amounts with dates of release, procurement milestones, and completed works; review Gram Sabha records; and interview elected members, staff and residents with consent. They should account for differences in population, geography, and state rules before attributing variation to local leadership. This paper does not present such observations for Yadgir, but the proposed measures would make future local research more specific and testable.

DISCUSSION

The political significance of fiscal decentralisation lies in the relationship between authority and accountability. If a panchayat can decide but cannot finance implementation, citizens may see consultation without results. If it receives money but cannot choose or supervise work, electoral accountability becomes blurred. Stronger local government therefore requires a visible chain from public priorities through authorised decisions, timely financing, implementation, and review.

State Finance Commissions have a distinct place in that chain because they are designed to review local fiscal positions within each state. Their recommendations should be public, accompanied by the state’s response, and assessed against actual transfers. The aim is not a single national fiscal formula for every village, but a system in which citizens can identify which institution is responsible for each decision and resource.

CONCLUSION

Constitutional recognition and Finance Commission grants provide a foundation for Panchayati Raj finance. Effective decentralisation is achieved when responsibilities, money, staff and public scrutiny work together. Evaluating only the size of grants misses whether a local body can make and implement decisions. Better evidence on the timing, discretion and use of funds can help states strengthen both local capacity and democratic accountability.

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