

PANCHAYATI RAJ INSTITUTIONS

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“Panchayat”, being “Local Government”, is a State subject and part of the State List of the Seventh Schedule of the Constitution of India. Panchayats are set up and operate through the respective State Panchayati Raj Acts, which may vary from State to State, subject to the provisions of the Constitution. The performance and development of the Panchayats depend on the extent of powers and resources devolved to them by the States concerned. Accordingly, all matters relating to Panchayats, including effective functioning of Panchayati Raj Institutions (PRIs), strengthening the institutional mechanism to ensure the accountability of PRIs towards people and its performance monitoring and evaluation, comes within the jurisdiction of the State Government.

However, Article 280(3)(bb) of the Constitution of India provides the basis for the Central Finance Commissions to recommend grants to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State. The Central Finance Commission assesses the adequacy of grants and accordingly recommends allocation of grants for the Panchayati Raj Institutions for the given award period.

Under Fourteenth Finance Commission, Grants to the tune of, ₹ 2,00,292.20 crore had been allocated to the Gram Panchayats constituted under Part IX of the Constitution in 26 States for the award period 2015-16 to 2019-20 for delivering basic services including water supply, sanitation including septic management, sewerage and solid waste management, storm water drainage, maintenance of roads, footpaths etc. Out of this total allocation, ₹ 183248.54 crore has been released.

Further, under the Fifteenth Finance Commission, Grants to the tune of ₹60,750 crore was allocated for the interim period 2020-21 and ₹2,36,805 crore was allocated for the final period 2021-26 to Panchayats in all the three tiers and Traditional Local Bodies and Sixth Schedule areas in 28 States. Out of this total allocation of ₹ 2,97,555 crore, ₹2,70,624.83 crore has been released as on 19.03.2026. Fifteenth Finance Commission Grant is further divided into Tied and Basic (Untied) Grants. Untied Grants can be used for felt needs of basic facilities under the 29 subjects enlisted in the ‘Eleventh Schedule’ of the Constitution of India, except for salaries and other establishment costs. The Tied Grants are to be utilised for basic facilities, specifically, for drinking water and sanitation.

The Sixteenth Finance Commission has emphasised that the primary responsibility of making adequate financial resources available to local bodies rests with the States and has paid special emphasis on the need for local bodies to generate their own resources. It has recommended total grants of Rs. 4,35,236 crores (Rupees Four lakh Thirty Five thousand Two hundred and Thirty Six crores) for the Rural Local Bodies (RLBs) for the award period of 2026-31. The grant allocated for RLBs is further sub-divided into Basic grant (Rs. 3,48,188 crores), RLB performance grant (Rs. 43,524 crores) and State performance grant (Rs. 43,524 crores). The entire performance component is untied. The Basic grant is further divided equally into Tied (Rs. 1,74,094 crores) and Untied (Rs. 1,74,094 crores). The tied component should be directed towards ‘Sanitation and Solid Waste Management’ and/or ‘Water Management’, including O&M expenditures for the aforementioned tied items.

Fifteenth Finance Commission Grants are released to the States in two installments in every financial year in terms of the Operational Guidelines for implementation of Fifteenth Finance Commission Grants to Rural Local Bodies (RLBs) issued by the Department of Expenditure, Ministry of Finance vide its letter dated 14.07.2021. Ministry of Panchayati Raj (MoPR) and the Department of Drinking Water and Sanitation (DDWS) are the nodal Ministries for recommending the release of Untied (Basic) Grants and Tied Grants, respectively. Upon receipt of the Grant Transfer Certificate from a State for the last released instalment and fulfilment of the eligibility conditions prescribed in the Operational Guidelines, MoPR recommends the release of the next instalment of Untied Grants to the Ministry of Finance (MoF). Similarly, DDWS recommends the release of the respective installment of Tied Grants to MoF.

Accordingly, the timing of release may slightly vary depending upon the receipt of the GTC for the last instalment released and the fulfilment of the prescribed eligibility conditions by the respective State. In terms of the Operational Guidelines, the State Governments, on receipt of the Fifteenth Finance Commission recommended grants from the Ministry of Finance shall transfer the same to the local bodies concerned within ten working days. Any delay beyond 10 working days will require the State Governments to release the grant with interest for the period of delay as per the average effective rate of interest on market borrowings/State Development Loans(SDLS) for the previous year. No delay has so far been reported in release of Grants if eligibility conditions for the release of Grants as mentioned in the Operational Guidelines have been met.

As per Article 243-I of the Constitution of India, the constitution, functioning, and implementation of the recommendations of State Finance Commissions fall within the purview of the respective State Governments.

For promotion of eGovernance in the Panchayats, under the Digital India initiative, the Ministry of Panchayati Raj has developed various digital platforms and applications to bring in transparency, accountability and efficiency in local rural governance of the country. This Ministry has launched eGramSwaraj (<https://egramswaraj.gov.in>), a user friendly web-based portal, which aims to bring in better transparency in the decentralized planning, progress reporting, financial management, work-based accounting and details of assets created. The application has been further integrated with Public Fund Management System, Government e-Marketplace, AuditOnline applications for hassle-free payment, transparent procurement, and auditing of Panchayats accounts.

The Government has taken significant steps to enhance the revenue-generating capabilities of Panchayats, enabling them to become self-sufficient and less dependent on external funding. The 73rd Constitutional Amendment Act, 1992, mandates the devolution of powers and responsibilities to Panchayats. The Ministry of Panchayati Raj has been actively advocating for states to fully implement these provisions, emphasising the need for states to empower Panchayats with adequate functions, finances, and functionaries.

The Ministry of Panchayati Raj, in collaboration with IIM Ahmedabad, has also developed a training module on Own Source Revenue (OSR) to strengthen the financial self-reliance of Gram Panchayats.

In 2025, the Ministry of Panchayati Raj has launched the Atma Nirbhar Panchayat Special Award (ANPSA) to promote Atmanirbharta through the augmentation of Own Source Revenue (OSR) by Panchayats.

The Ministry of Panchayati Raj (MoPR) has also undertaken a significant step to digitise the OSR collection of the Panchayats by developing the “SAMARTH Panchayat portal”, a dedicated digital platform that facilitates the generation of tax & non-tax demands and collection thereof, maintenance of tax registers, and online tracking of revenue. This digital empowerment is designed to bring transparency, efficiency, and scalability to local financial administration.

This information was given by Union Minister Shri Rajiv Ranjan Singh alias Lalan Singh in a written reply in Lok Sabha on 24th March 2026.

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