

Quote by Davinder Sandhu, Managing Director, Primus Partners

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National Panchayati Raj Day | How to unlock the next phase of panchayat reforms

"India's Panchayats are often described as the foundation of grassroots democracy. They are also central to achieving inclusive development. Therefore, its next phase of reform is not about creating new institutions, but about enabling existing ones to function more effectively, write Primus Partners' Co-founder and Chairman Davinder Sandhu, and Vice President Manoj Kurbet".

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Article Content:

As India marks National Panchayati Raj Day today, it is worth recognising that the country has already achieved remarkable progress in decentralisation. Through the 73rd Constitutional Amendment, India institutionalised one of the world's largest decentralised governance systems, with nearly 2.7 lakh Gram Panchayats covering over 6 lakh villages and serving close to 65% of the population.

The framework exists. The question now is whether it is delivering to its full potential?

India's pharmaceutical industry remains dependent on China for bulk drugs, particularly fermentation-based antibiotics, vitamins and intermediates. Inventory buffers of three to six months, built after the pandemic, are providing a temporary cushion.

These stocks reporting next week can beat expectations and rally, Bespoke says.

When Panchayats rely almost entirely on external grants, local governance risks becoming transactional rather than participatory. Public funds are often perceived as government money, which weakens citizen ownership, reduces scrutiny, and dilutes accountability. Even modest local revenue mobilisation can change this dynamic by creating a direct link between contributions and service delivery.

The potential for change is significant. An Expert Committee constituted by the Ministry of Panchayati Raj estimates that rural local bodies can generate nearly Z1 lakh crore in own-source revenues over eight years from FY2023-24, including 242,000 crore from property taxes alone.

Some states have already demonstrated what is possible. Karnataka, Kerala, Tamil Nadu and a few others have made measurable progress in mobilising local revenues. Karnataka, for instance, reported over 2863 crore in collections within the first three quarters of FY 2024-25, with further increases expected.

Evidence also supports this trend. Studies by the Reserve Bank of India indicate that states with stronger devolution frameworks tend to perform better across sectors, and this is often accompanied by higher capacity for local revenue generation. The issue, therefore, is not whether Panchayats can function, but why this potential remains unevenly realised.

Three structural challenges stand out:

First, fiscal authority remains limited in practice. While Panchayats are assigned responsibilities across sectors, their ability to raise and manage resources independently is constrained by policy design, weak enforcement mechanisms, and political hesitation around local taxation.

Second, institutional capacity is uneven. Many states lack the human resources, processes, and technical systems required to operationalise revenue systems at scale. Fiscal decentralisation is not merely a policy decision. It requires administrative capability that can assess, collect, and manage revenues efficiently.

Third, public perception continues to be a binding constraint. Resistance to local taxation, particularly property tax, reflects a broader trust deficit. As seen in behavioural frameworks such as the tragedy of the commons, short-term individual choices often undermine long-term collective outcomes.

These challenges are real, but they are not insurmountable.

Strengthening fiscal decentralisation requires a shift in approach. Citizen trust and engagement must be placed at the centre. Evidence shows that when revenue mobilisation is linked to visible improvements in local services, citizen willingness to

contribute increases significantly. Gram Sabhas, participatory planning, and social audits can play a critical role in building this trust.

Clear and enabling policy frameworks are equally important. States need to define transparent rules for assessment, collection, exemptions, and enforcement, drawing on both model guidelines and local experience.

Institutional capacity must follow. This includes investments in trained personnel, streamlined processes, and administrative systems that can support Panchayats in performing these functions effectively.

Technology can be a powerful enabler if designed correctly. Digital systems should support end-to-end revenue management, from property identification and assessment to billing, collection, and grievance redressal. When implemented well, they can improve transparency, reduce inefficiencies, and strengthen citizen engagement.

Finally, the scope of reform should extend beyond taxation. Asset monetisation presents a significant opportunity. A structured approach to identifying, registering, and leveraging Panchayat assets can unlock additional non-tax revenue streams.

Conclusion:

India's Panchayats are often described as the foundation of grassroots democracy. They are also central to achieving inclusive development. The next phase of reform is not about creating new institutions, but about enabling existing ones to function more effectively.

As National Panchayati Raj Day is observed, the focus must shift from building frameworks to strengthening their performance on the ground. The promise of decentralisation lies not just in design, but in delivery.