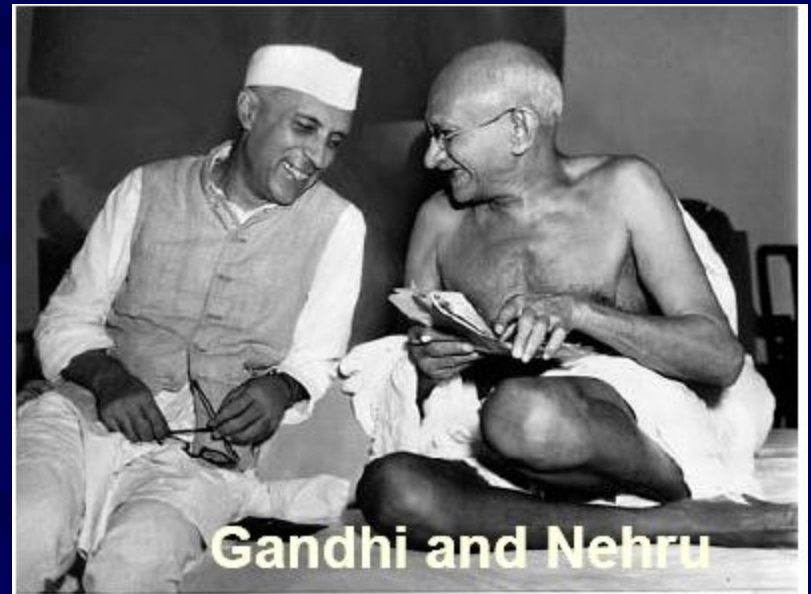


Fiscal Decentralization in India: Institutional Arrangements

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Indian Federation: the setting

- Union Government
- 29 States
- Union territories
- Rural local governments
- Urban local governments



INDIA

States and Union Territories



Sources of local government finances

- Own source revenues
- Borrowing
- Schemes by Union Government
- Devolution and grants from
 - State Finance Commission
 - Union Finance Commission

Traditional own source revenues

- Property Tax: Residential, Non-Res.
- Octroi/ Entry Tax
- Profession Tax (Up to Rs. 2500 p.a.)
- Pilgrim Tax
- Tax on Bicycles, Rickshaws, Boats/Ferries
- User/ Service charges: Water, Sanitation

Borrowings

- Local Authorities Loans Act 1914, a Central Act does exist enabling the grants of loans to local authorities including panchayats
- National Commission headed by Retd. Justice Venkatachaliah recommended to allow all local authorities to borrow from the state government and financial institutions.

Some Schemes by Union Government

Panchayats have involvement in:

- Mahatma Gandhi National Rural Employment Guarantee Scheme [MGNREGA]
- Sarva Shiksha Abhiyan [financed from Education Cess]
- Mid Day Meal
- Cess backed allocation to Pradhan Mantri Gram Sadak Yojana
- National Rural Drinking Water Programme
- Swaccha Bharat Abhiyan (rural)
- National Health Mission
- National Land Records Modernization Programme
- National Rural Livelihood Mission
- Rural Housing
- Integrated Child Development Service
- Rajiv Gandhi Khel Abhiyan

Some Schemes by Union Government

Municipalities have involvement in:

- Sarva Shiksha Abhiyan [financed from Education Cess]
- Mid Day Meal
- Swaccha Bharat Abhiyan [urban]
- Atal Mission for Rejuvenation and Urban Transformation
- National Health Mission
- National Land Records Modernization Programme
- National Urban Livelihood Mission
- Pradhan Mantri Awas Yojana - Housing for All
- Integrated Child Development Service
- Smart City - ???

SFCs're mandated to recommend the principles for (1 of 2)

- The distribution between the State and local governments of the net proceeds of taxes, duties, tolls and fees leviable by the State and their *inter se* allocation between the Panchayats and Municipalities.
- The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the local governments.

SFCs're mandated to recommend the principles for (2 of 2)

- The grants-in-aid to the local governments from the Consolidated Fund of the State
- The measures needed to improve the financial position of the Panchayats and Municipalities
- Any other matter in the interests of the sound finances of the local governments.

SFC: Not a masterpiece of legal drafting

- “ *...at the expiration of every fifth year, constitute a Finance Commission* ” could be substituted with “every fifth year or earlier”
- Absence of time frame - art. 243 I (4) and 243 Y (2) could be corrected by adding “within six months” at the end.
- The words in art. 280 (3) [bb & c] “ *on the basis of recommendations* ” could be substituted by “ *after taking into consideration the recommendations* ”

Last SFC in States – How long back? (1 of 3)

State	Date of Constitution	Date of Submission	Date of Submission of ATR	Period Covered by SFC
AP (III)	Dec' 04	Jan'08	Dec'13	2005-06 to 2009-10
Arunachal Pradesh(II)	Aug'12	Jun'14	N.A.	
Assam (V)	Mar'13	Rejected		2015-16 to 2019-20
Bihar (V)	Jan'14	Not yet	N.A.	2015-16 to 2019-20
Chattisgarh (II)	Sep'11	Mar'13	Aug'09	2008-09 to 2014-15
Goa (II)	Aug'05	Dec' 07	N.A.	2007-08 to 2009-10
Gujarat (III)	Feb'11	Jun'14	Not considered	2010-11 to-2015-16
Haryana (IV)	Mar'10	June'14	Mar'15	2011-12 to 2015-16
HP (V)	Nov'14			2017-18 to 2021-22

Last SFC in States – How long back? (2 of 3)

State	Date of Constitution	Date of Submission	Date of Submission of ATR	Period Covered by SFC
J & K (I)			Not Constituted	
Jharkhand (I)	Jan'09	2011	Not considered	2009-10 to 2013-14
Karnataka (III)	Aug'06	Dec'08	Oct'2011	2010-11 to 2014-15
Kerala (IV)	Sep'09	Jan'11	Feb '2011	2011-12 to 2015-16
MP(IV)	Jan'12	N.A.	N.A.	2010-11 to 2015-16
Maharashtra (IV)	Feb'11	N.A.	N.A.	2011-12 to 2017-18
Manipur (III)	May'13	N.A.		2010-11 to 2015-16
Orissa (IV)	Oct'13	Feb'14	Feb'15	2014-15 to 2019-20

Last SFC in States – How long back? (3 of 3)

State	Date of Constitution	Date of Submission	Date of Submission of ATR	Period Covered by SFC
Punjab (IV)	Nov'08	May'11	N.A.	2011-12 to 2015-16
Rajasthan (V)	Jun'15	Sept'15 (Int.)	Sep'15(Int.)	2015-16 to 2019-20
Sikkim (IV)	Jul'12	May'13	Oct' 13 ??	2010-11 to 2014-15
Tamil Nadu (V)	Dec'14	May'16		2017-18 to 2021-22
Tripura (III)	Mar'08	Oct'09	Mar'10	2005-06 to 2009-10
UP (IV)	Dec' 11	Dec'14	Mar/Aug'15 (Revised)	2011-12 to 2015-16
Uttrakhand (IV)	Feb'15	--	--	2016-17 to 2020-21
West Bengal (IV)	Apr'13	Apr'14	-----	2013-14 to 2017-18

SFCs: Some general observations

- States have been, with few exceptions, being regular in constituting the SFCs
- SFCs take 1 to 5 years to submit reports.
- States take 3 months to 2 years for ATRs or do not submit e.g. Karnataka, Maharashtra
- Reluctance of non Part IX/IXA N-E States on SFCs. (Of late, Nagaland & Mizoram did)
- Availability of SFC Reports & ATRs etc.:
Website

SFC reports - Shortcomings

- SFC not regular as Union Finance Commission
- TOR of SFCs vary across States
- Degree of Decentralization varies across states
- Approach of SFCs have not been uniform
- Lack of clarity in estimation of vertical gaps
- Composition of SFC
- Peripheral and endogenous
- Absence of time frame - Article 243 (4)

Share in State pool by recent SFCs

SFC of	Per Cent	Acceptance
<u>Total Revenue of state</u>		
Andhra Pradesh (II)	10.4	No
<u>Own Revenue of State</u>		
Karnataka (III)	30	N.A.
Sikkim (IV)	2	Yes
Uttar Pradesh (IV)	15	Modified
<u>Own Tax revenue</u>		
Assam (IV)	15	Yes
Bihar (IV)	7.5	Yes
Haryana (IV)	2.5	Modified
Kerala (IV)	19.7	Yes
Odisha (IV)	3	Yes
Rajasthan (IV)	5	Yes
Rajasthan (V)	7.2	Yes
Tamil Nadu (IV)	10	Yes
West Bengal (III)	5	Yes

Many SFC reports do not

- Review previous SFC report
- Suggest new local taxes
- Present data on which the reports are based
- Complain about poor data base
- Attempt estimates of local taxable capacities in terms of measurable indicators
- Indicate full O&M requirement of core services
- Suggest budget and accounting reforms of the local governments.

Union Finance Commission

- Article 280 (3) [bb &c] stipulates Union Finance Commission “*to suggest measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and the Municipalities in the State*”

The Constitution 73rd Amendment Bill

Report of the Joint Committee

- *“Apart from augmenting internal resources, methods need to be devised for enlarging the area of assured devolution and quantum of assistance that will flow from the Centre to States and from States to the Municipalities”*

Union FC Grants to Local Governments

Rs Crore

Finance Commission	Panchayats	Municipalities
10 th [1995-00]	4381	1000
11 th [2000-05]	8000	2000
12 th [2005-10]	20000	5000
13 th [2010-15]	63051 [% of the divisible pool]	23111 [% of the divisible pool]
14 th [2015-20]	200292 for gram panchayats only [basic 90: performance 10]	87144 [basic 80: performance 20]

Horizontal Allocation (for local)

Criterion	11th FC	12th FC	13th FC	14 th FC
Population	40	40	50	90
Area	10	10	10	10
Distance	20	20	20	-
Decent/Devolution Index	20	-	15	-
Revenue Efforts	10	20	-	-
Deprivation Index	-	10	-	-
Grant Utilization	-	-	5	-

Eligibility for performance grants of the 14th FC

- Audited accounts of receipts and expenditure
- Improvements in own revenue
- Municipalities to measure and publish service level benchmarks for basic services

Role of the Union Government

- To oversee the fulfillment of constitutional provisions in states
- To hand hold states for capacity equalization of local governments
- To set national minimum goal for equalization of basic services
- To create vertical schemes so that the above objectives could be achieved
- To help states in all matters as and when needed
- To monitor national grants to local governments through states
- To set up an SFC cell in a National Institute
- To disseminate best practices of SFCs
- To conduct international experience sharing
- To create institutions for professional city management courses
- To establish technical committee for expenditure norms of services
- To conduct national & international programs for capacity enhancement.

Role for State Governments (1 of 3)

- Setting up the SFCs timely.
- Interacting with SFCs regularly.
- Place ATR in the Assembly within six month
- Transfers to local govts be clear in state budget
- Establishing a Permanent SFC Cell in Finance Dep.
- Adopting C&AG budget format/PRIA Soft.
- Providing Core Staff to SFCs.
- Making SFC be a permanent body with impermanent Chairman/Members?
- Placing annual status of ATR before Legislature

Role for State Governments (2 of 3)

Standardize & notify:

- Procedures for levy of property & other taxes.
- Norms for basic services
- Norms for staffing & salaries

Incentivize performance through:

- Levy & collection of taxes & user charges.
- Economy in expenditure
- People's participation

Role for State Governments (3 of 3)

- Database on Local Govts & their Finances
- Standardize the template- web based:
 - LG Profiler, Directory, Assets Register, PRIASoft
- Institutionalize the arrangements for data collection
- Notify Activity Maps: For all schemes & services
- Delineate role for the LGs & Others: Issue GOs.
- Make this the basis for assignment of assets, staff and budget allocations

Model Procedure for State to Transfer SFC Funds to local govt.

- Entitlement of local governments for funds be indicated preferably in State Annual Budget
- Funds be released in two installments
- 2nd after the receipt of 1st Installment's UC
- Funds be released directly to the bank
- State to pay interest, if delay is beyond 15 days
- Details of grants be placed before gram/ward sabha

The Road Ahead

- Uniformity in local budgetary classifications
- Synchronous with that of Union and State
- Uniformity of definitions of local taxes & exp.
- Uniformity in fiscal transfer mechanism to local
- Uniform procedures for data collection
- Some uniformity in SFC reports
- A clearing house at national level for:
 - the dissemination of best practices
 - information sharing
 - professional inputs

Thank You!