NIPFP Working paper series

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No. 263
30-April-2019

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New Delhi

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Abstract

While the Constitution provides for setting up of SFCs at regular intervals, this has not been adhered to by the states. The paper reviews the reports of the latest SFCs of 25 states in India. This involves examining the status of constitution of SFCs, their functioning and the approach adopted by them in carrying out their task and the principles adopted by them in allocating resources to local governments both vertically and horizontally. It also quantifies the devolution recommended by the SFCs in order to get a comparative picture of funds devolved by them across states. It is observed that there is huge variation in the recommended per capita devolution across States. We do not find any relation between the recommended per capita devolution and per capita income of States, but per capita devolution is in general very low across states in India. Is it that the state governments arbitrarily reject the recommendations or are the SFCs themselves to be blamed for non-acceptance of their recommendations? The paper also examines the quality of SFC reports from the point of view of their implementability and finds that at times state governments are constrained to implement these recommendations on the grounds of poor quality of SFC reports.

Key Words: Fiscal Decentralisation, Local governments, State Finance Commissions

JEL Classification Code: H7

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1. Introduction

In keeping with the global trend, India too has taken steps towards greater devolution of powers to local governments particularly since the early 1990s. Although, attempts to decentralise the administrative system and establishment of self-governing institutions has a much longer history, there have been sporadic attempts at devolving powers to local governments especially after independence. However, the impetus gained momentum with the statutory recognition of local bodies as institutions of rural and urban self-government after the 73rd and 74th Constitutional amendments in 1992.[2]

With the constitutional recognition of urban and rural local bodies, the structure of inter-governmental fiscal relations underwent change. The State legislatures were required under Article 243G and 243W of the Constitution to transfer such powers, functions and responsibilities to rural and urban local bodies as to enable them to function as institutions of self-government. The 11th Schedule to the Constitution lists 29 broad areas for the panchayats while the 12th Schedule lists 18 functions for urban local bodies. In respect of these functions, the State governments, at their discretion were required to devolve these functions to local bodies who were to undertake them concurrently. The Legislature of a State has the power to authorize the Panchayats and the Municipalities to levy and collect suitable local taxes (Article 243H). However, there is no separate list of taxes (similar to the expenditure responsibilities listed in the 11th and 12th Schedules) assigned to them. The legislature is also required to appoint a State Finance Commission (SFC) in all states with the exception of Mizoram, Nagaland and Meghalaya.[3] Recommending transfer of resources from state governments to local bodies is the main task of SFCs.

The fiscal decentralisation envisaged in the Constitutional amendments has the potential to improve the efficiency of public services delivery in the country. In principle, the constitutional empowerment of the local governments enables them to elicit preferences of people for public services and has the potential to provide public services according to such preferences efficiently. However, in reality, the situation is somewhat different. Despite Constitutional recognition, the design and implementation of decentralization do not enable the local bodies to function as institutions of self-government. It has been pointed out that many state governments have not devolved functions, funds and functionaries to local governments (see Rajaraman and Sinha, 2007, 2007a; Rao et al 2011). Even where the functions are notionally transferred to local bodies, the staff remains accountable to the state governments, thereby adversely impacting the efficacy of carrying out the functions (Reddy and Reddy, 2019). The own revenue effort of local governments have been poor (refer Jena and Gupta 2008; Rao and Rao 2008; Rao et al 2011; Gupta 2014; CPR 2014) and they are dependent on higher levels of government for resources and play the role of agents implementing various schemes of both State and Union Government.

[2] The 73rd and 74th amendments of the Constitution were passed by the Parliament on 22/23 December 1992. After securing the endorsement of half the States of the Union and the consent of the President, as required by the Constitution, Part IX ('The Panchayats') was notified in the Gazette of India on 24 April 1993. Part IXA ('The Municipalities') followed a month later.

[3] As per the 73rd and 74th Constitutional Amendments Act, 1992, these 3 states are exempted from constituting SFCs. However, Nagaland constituted its first SFC in August 2008 and Mizoram in September 2011.

This paper focuses on the institution of State Finance Commission which is to be appointed in all the states with the objective of strengthening local governments. Constitution of a SFC is mandated in Article 243-I (1) and 243-Y (1) of the 73rd and 74th Constitutional Amendment Act, 1992. SFCs are required to review the financial position of local bodies (i.e., Panchayats and Municipalities) and to make recommendations as to:

a) the principles which should govern

  (i) the distribution between the state and the local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this part (i.e. Part IX, the panchayats and Part IXA, the municipalities) and the allocation between the local bodies at all levels of their respective shares of such proceeds;

  (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the local level governments;

  (iii) the grants-in-aid to the local bodies from the Consolidated Fund of the State;

b) the measures needed to improve the financial position of local bodies; and

c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the local level governments.

SFCs are the constitutional counterpart of Union Finance Commission (UFC). They are required to recommend the principles to be applied in determining the allocation of funds to local governments and the range of taxes and non-taxes to be devolved to them. The importance of the SFCs in the scheme of fiscal decentralisation is that besides arbitrating on the claims to resources by the state governments and local governments, its recommendations could impart greater stability and predictability to the transfer mechanism and flow of resources to the third-tier. It is, therefore, essential that SFC as an institution should function efficiently and effectively if the third-tier of the government has to be empowered and strengthened.

In principle, local services should be paid for by the beneficiary (population). However, it is well recognised that the revenue handles at the local level are meagre. Therefore, dependence of local bodies for delivering services is overwhelming. Considering this, an objective mechanism to devolve funds to them and encourage them to generate revenues from the sources assigned to them is critical. This underscores the importance of State Finance Commission in shaping the fiscal architecture at the third level both in rural and urban areas.

The objective of this paper is to review the functioning of SFCs and the effectiveness of their recommendations in strengthening the process of decentralisation in India. The study reviews the latest available reports of SFCs of 25 states.[4] This involves exploring the

[4] These are Andhra Pradesh (3rd SFC), Arunachal Pradesh (2nd SFC), Assam (5th SFC), Bihar((5th SFC), Chhattisgarh (2nd SFC), Goa (2nd SFC), Gujarat (2nd SFC), Haryana (5th SFC), Himachal Pradesh (5th SFC), Jammu and Kashmir (1st SFC), Karnataka (4th SFC), Kerala (5th SFC), Madhya Pradesh (4th SFC), Maharashtra (4th SFC), Manipur (3rd SFC), Mizoram (1st SFC), Odisha (4th SFC), Punjab (5th SFC), Rajasthan (4th SFC), Sikkim (5th SFC), Tamil Nadu (5th SFC), Tripura (3rd SFC), Uttar Pradesh (4th SFC), Uttarakhand (4th SFC) and West Bengal (4th SFC). The four states whose SFCs were not included in the analysis are Jharkhand (SFC reports not available), Meghalaya (exempted from constituting SFC), Nagaland (although exempted from setting up SFC, it constituted its SFC; report not available) and Telangana (the state was created in June 2014; 1st SFC constituted in December 2017; report not available).

working of SFCs by examining the approach adopted by SFCs in carrying out their task and the principles adopted by each of them in allocating resources to local governments both vertically and horizontally. The paper also examines the quality of SFC reports by analysing the nature of their recommendations, i.e., to what extent these are practical and can be implemented by the state governments.

The paper is organised as follows: While the Constitution provides for setting up of SFCs at regular intervals, this has not been adhered to by the states. Section 2 examines the status of constitution of SFCs by state governments. Section 3 examines the principles of revenue sharing adopted by the SFCs. It also quantifies the devolution recommended by them in order to get a comparative picture of funds devolved by SFCs across different states. Section 4 analyses the principles adopted by the latest SFCs in these states for horizontal distribution of resources across local governments, both rural and urban. This has been done through a detailed review of the reports of the latest SFCs of each of the states. How the state governments have responded to the recommendations of SFCs is examined in section 5. This involves examining the explanatory memorandum on the action taken on the recommendations made by the SFC submitted by the state governments. Section 6 concludes by providing policy suggestions for improving the functioning of SFCs.

2. State Finance Commissions: Status of Constitution

The Constitution provides for the appointment of SFCs within one year from the commencement of the Constitution Amendment Act 1992, and, thereafter, at the expiry of every fifth year. Thus, as per the Constitutional provisions, setting up of fifth SFC became due in 2014-15 in all the states. However, available information show that so far only thirteen states have constituted their fifth SFC till date as is evident from table 1. Out of these thirteen states, fifth SFC was constituted recently in three states, namely, Odisha (constituted in May, 2018), Maharashtra (the cabinet approved setting of the Commission in January 2018) and Madhya Pradesh (constituted in October 2017); and in case of two states (Uttar Pradesh and Rajasthan) which constituted their fifth SFC in 2015, their reports are yet to be submitted. In other words, not many states are in a position to set up their sixth SFCs which become due in 2019-20.

Five states have constituted their fourth SFCs and there are several states that are still in their third and second SFCs. Jammu & Kashmir has not yet constituted its second SFC, while Mizoram which was exempted from constituting SFC as per the 73rd and 74th Amendment Act constituted its first SFC in September 2011. Telangana, the newest state of India, was formed out of Andhra Pradesh in June 2014. It constituted its first SFC in December 2017. Thus, there is a considerable divergence between the Constitutional provisions regarding setting up of SFCs and their working on the ground.

From the table it is evident that the record of the states has been dismal with regard to the mandatory provisions in the Constitution like setting up of SFCs at five-year intervals. There are numerous instances of states having failed to timely constitute SFCs. This could be due to a number of reasons namely, (i) SFCs have taken a lot of time to submit their reports, (ii) state governments have taken considerable time in tabling the action taken report (ATR) in the state legislatures, (iii) states have not constituted the SFCs in a timely manner, (iv) and/or a combination of all of the reasons. Review of the latest available SFC reports of 25 states reveal that the average time taken by them to submit their reports is around 32 months resulting in an average delay of about 16 months.[5] The average time taken by state governments to table the ATR is around 11 months.[6]

Table 1: Status of Constitution of State Finance Commissions

States	State Finance Commissions				
	5th	4th	3rd	2nd	1st
Assam, Bihar, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh (13)	√				
Andhra Pradesh, Karnataka, Tripura, Uttarakhand, West Bengal (5)		√			
Chhattisgarh, Goa, Gujarat, Manipur (4)			√		
Arunachal Pradesh, Jharkhand, Nagaland (3)				√	
Jammu & Kashmir, Mizoram, Telangana (3)					√

Notes: (a) Figures in parenthesis refer to the number of states; (b) As per the 73rd and 74th Constitutional Amendments Act, 1992 three states, Meghalaya, Mizoram and Nagaland are exempted from constituting SFCs. However, Mizoram and Nagaland have constituted SFCs; (c) Telangana, the newest state of India, was formed out of Andhra Pradesh in June 2014. It constituted its first SFC in December 2017.

Non-availability of office space, technical staff and basic office infrastructure like computers, office furniture and other supporting logistics resulted in considerable time loss. SFCs are not a permanent body and hence they do not have permanent office space. Every time a SFC is constituted, it has to look for office space, recruit technical staff and arrange for office infrastructure. This takes a lot of time. Considerable time is lost by the time the Commission can actually start its work. Additionally, workings of SFCs have also been delayed by non-availability of data relating to local governments. Every time a SFC is constituted, it has to start from scratch to collect data. Considerable time is spent in designing questionnaires and collecting data on the finances of local governments. Moreover, the concerned departments also do not provide data in a timely manner. SFC reports are also delayed due to delays in the appointment of chairpersons/members,[7] reconstitution of SFCs[8] and due to state/local body elections which affect the working schedule of the Commission. Another important reason for the delay in SFC reports is the unreasonable time assigned to SFCs by state governments to submit the reports. For example, the 3rd SFC of Manipur was mandated to submit its report in 3 months. Similarly, 4th SFC of

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[5] By delay in report submission we mean the difference between the date of actual submission of SFC report and mandated date of submission as per the ToR.

[6] ATRs are available for 20 states. For more details refer to the study by Chakraborty, Gupta and Singh (2018).

[7] The 4th SFC of West Bengal was set up on 30-04-2013. Initially the Commission had two members. Subsequently, member secretary was appointed in June, 2013 and another member in July, 2014. The 4th SFC of Maharashtra was constituted in 10-02-2011. However, the full-fledged Commission came into existence only from 17-05-2014, on account of several appointment and re-appointment issues of the members of the Commission from time to time

[8] The 5th SFC of Punjab was twice constituted while the 3rd SFC of Andhra Pradesh was reconstituted once.

Karnataka, 5th SFC of Kerala, and 5th SFC of Sikkim were given 6 months each, 4th SFC of Odisha was given 5 months while the 3rd SFC of Tripura was given 1 month to submit their reports. Given that lot of time goes towards getting office space, technical manpower, arranging office infrastructure and collecting data on local body finances, we are of the view that the state governments should provide adequate time to SFCs for carrying out the task assigned to them.

Delay in the submission of reports by SFCs along with the delay in tabling the action taken reports in the legislature by state governments effectively means very little time remains (out of the award period of the Commission) to be governed by the recommendations of SFCs. A steady and predictable flow of funds is essential for reliable provisioning of basic public goods with a local spatial reach like sewerage, solid waste management, water supply, road maintenance. Whatever be the reason, such delays means that the flow of funds to local governments is not steady and predictable thereby adversely impacting the delivery of basic services by the local governments.

3. Treatment of Core ToR by SFCs and Revenue Sharing

Let us examine the approach adopted by SFCs for transferring resources to the third-tier. As per the Constitution, the core task of a SFC is to make recommendations regarding "distribution between the State and the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part IX and Part IX-A of the Constitution and allocation between the Panchayats at all levels and Urban Local Bodies of their respective shares of such proceeds".

Despite the core ToR of all SFCs remaining more or less the same, we find SFCs have not been uniform in their approach towards the definition of divisible or the shareable pool of resources. The divisible pool differs across States and Commissions even when the ToR is unambiguous as to what is shareable as evident from table 2.

In determining vertical devolution, many SFCs have recommended devolving a share of own tax revenues of the State, while others have recommended sharing own revenues (i.e., own tax and own non-tax revenues including GST compensation). In another set of states, SFCs have recommended devolving a share of total revenues of the State inclusive of State's share in central transfers and in some states they did not specify the divisible pool but devolution was recommended based on a gap filling approach which involved projecting the committed expenditures of local bodies like salaries and wages of staff, honorarium for elected members, travel and office expenses (e.g. 5th SFC of Himachal Pradesh) or by assessing the requirement of establishment expenditure, maintenance expenditure and development expenditure (e.g. 3rd SFC of Tripura) and so on. Thus we see that the composition of divisible pool varies considerably across SFCs which make comparison of SFC awards to local governments across different states difficult.

Table 2: Composition of the Divisible Pool

Share of Net Own Tax Revenue (net of cost of collection)	**Share of Net Own Tax Revenue** (net of collection cost and other taxes/charges)	**Share of Total Revenues Receipts**	**Share of Own Revenues receipts**	**Others/No Specific criteria**
• ***J&K (1st):*** 12.5% of state's tax proceeds net of cost of collection. • ***Kerala (5th):*** 20% of the state's net OTR in 2016-17; for subsequent years increases by 1% every year • ***Madhya Pradesh (4th):*** 1st interim report: 5% of the States net own tax revenue (90%) for 2015-16; 2nd & final interim report: 7.5 % of State's net own tax revenues (90%) for remaining 4 years. • ***Mizoram (1st)***: 15% of state's own tax revenues. • ***Punjab (5th)***: 4% of net total tax revenue of the State. • ***Sikkim (5th):*** 4.5% of State's net own tax revenue. • ***Tamil Nadu (5th):*** 10% of State's own tax revenue 2017-22 (SOTR net of surcharge on Stamp Duty of	• ***Bihar (5th):*** 8.5% of State's net own tax revenue (net of collection cost & entertainment tax) in 2015-16 and 9% in 2016-17 to 2019-20. • ***Chhattisgarh (2nd):*** 8% of net tax revenues of state, net of land revenue, tax on goods and passengers and other taxes on commodities and services. • ***Haryana (5th):*** 7% of State's own tax revenue net of cost of collection, VAT and 2% of Stamp duty and registration fees collected on behalf of urban bodies. • ***Odisha (4th):*** 3% of net own tax revenue of the State. Net of entry tax, motor vehicle tax and entertainment tax • ***Rajasthan (4th):*** 5% of State's net own tax revenue. Net of entry tax and land revenue. In addition, 100% of land revenue, 25% of	• ***Gujarat (2nd):*** 10% of State's total revenue receipts. • ***Manipur (3rd);*** 10% of State's own tax revenue, non-tax revenue and share in the central taxes.	• ***Karnataka (4th):*** 48% of Non-loan net Own revenue receipt (NLNORR) inclusive of GST compensation but excludes FC-XIV grants • ***Maharashtra (4th)***: at least 40% of state's own tax and non-tax revenue • ***Uttar Pradesh (4th):*** 15% of State's tax and non-tax revenues net of collection cost.	• ***Andhra Pradesh (3rd):*** Assessed needs of local bodies to arrive at devolution. Devolution is by way of grants and assignment. • ***Assam (5th):*** Assessed fund requirement of ULBs and RLBs in both general and schedule VI Areas. This works out to 15.90% in 2016-17, 14.50% in 2017-18, 13.50% in 2018-19, and 12.60% in 2019-2020 of State's net own tax revenue net of cost of collection @10% • ***Goa (2nd SFC)***: Assignment of tax revenue to ULBs shall mainly be a percentage of land revenue and of royalties of mines and minerals. For PRIs, assigned devolution is 2% of State own revenue. • ***Himachal Pradesh (5th):*** adopted gap filling approach. Funds to be devolved derived by including salaries of staff, honorarium of members, office

Share of Net Own Tax Revenue (net of cost of collection)	Share of Net Own Tax Revenue (net of collection cost and other taxes/charges)	Share of Total Revenues Receipts	Share of Own Revenues receipts	Others/No Specific criteria
RLBs/ULBs and other surcharges. • ***Uttarakhand (4th):*** 11% State's own tax revenue. • ***West Bengal (4th):*** 2.5% of State's own tax revenue.	entry tax, 3% of royalty on minerals, 2% cess on excise duty and 10% surcharge on stamp duty also to be devolved.			expenses, TA/DA expenses. • ***Tripura (3rd SFC):*** Adopted a gap-filling approach. Calculated the Pre-devolution gap by assessing requirement of establishment expenditure, maintenance expenditure and development expenditure of LBs.

Source: SFC Reports of respective states.

Not only is the composition of divisible pool different across SFCs, the quantum of transfers recommended by them also varies widely. There is considerable overlap between the subjects in the state list and those listed for local bodies in the 11th and 12th Schedule. Moreover, the operationalisation of many of the Constitutional provisions contained in the 73rd and 74th Constitutional Amendment Act (i.e., the design of decentralisation) was left to the States. As a result, the progress of decentralisation is different for different states. Hence, it is expected that the quantum of transfers recommended by SFCs would be different across states. In order to get a comparative picture of the funds devolved by SFCs across different states we calculate the per capita devolution recommended by them for a common set of years. For the period 2010-11 to 2019-20, we were able to calculate the per capita devolution recommended by SFCs for several states. This is presented in Table 3.

Table 3: Per Capita Devolution Recommended by SFCs

(Rs.)

	States	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average of	
												2010-11 to 2014-15	2015-16 to 2019-20
1	AP (3rd)	250.19	--	--	--	--	--	--	--	--	--	**250.19**	
2	Assam (3rd-4th-5th)	323.86	99.57	107.32	139.93	170.33	201.25	232.87	238.84	245.89	254.10	**167.56**	**234.89**
3	Bihar (3rd-4th-5th)	49.66	55.02	60.99	67.62	75.01	221.24	284.24	345.22	420.44	512.55	**61.82**	**359.00**
4	Chhattisgarh (1st-2nd)	188.99	218.10	333.22	375.07	421.51	474.02	534.15	--	--	--	**309.77**	**504.32**
5	Gujarat (2nd)	433.50	--	--	--	--	--	--	--	--	--	**433.50**	
6	Haryana (3rd-4th-5th)	258.90	194.58	228.02	266.02	304.51	352.58	704.52	784.55	873.90	973.68	**250.92**	**741.81**
7	HP (3rd-4th-5th)	139.13	146.25	180.79	186.56	259.06	267.31	321.00	349.99	431.45	465.82	**182.54**	**368.04**
8	Karnataka (3rd-4th)	2340.04	2564.65	2889.90	3814.28	4452.21	4966.28	5637.60	6267.57	6516.94	7061.93	**3228.80**	**6101.04**
9	Kerala (3rd-4th)	900.17	1142.38	1410.02	1664.58	1909.89	2164.16	2505.53	2929.77	3418.46	3980.77	**1407.86**	**3004.26**
10	MP (4th)	--	--	--	--	--	251.82	409.49	443.68	481.25	521.70		**423.37**
11	Maharashtra (3rd)	1115.65	997.03	1151.25	--	--	--	--	--	--	--	**1088.14**	
12	Manipur (3rd)	536.22	633.81	636.81	790.60	887.66	893.12	998.73	1116.24	--	--	**700.76**	**1004.31**
13	Mizoram (1st)	--	--	--	--	--	113.48	129.05	146.77	166.88	189.81		**149.65**
14	Odisha (2nd-3rd-4th)	215.05	212.24	209.45	206.70	203.98	149.76	148.25	146.76	145.29	143.84	**209.41**	**146.75**
15	Punjab (3rd-4th-5th)	148.16	270.87	304.07	338.42	376.60	448.25	416.30	443.01	471.90	503.19	**289.21**	**456.96**
16	Rajasthan (3rd-4th)	197.42	250.43	301.86	322.98	385.79	446.94	496.86	--	--	--	**293.04**	**472.08**
17	Sikkim (2nd-3rd-4th)	80.06	39.93	39.54	39.04	38.92	164.14	185.32	209.34	236.49	266.83	**47.32**	**212.99**
18	TN (3rd-4th-5th)	584.16	659.90	933.95	1081.48	1253.16	1336.84	1467.49	1289.47	1443.97	1593.57	**904.60**	**1427.74**
19	Tripura (2nd-3rd)	128.92	139.44	151.53	163.84	179.45	--	--	--	--	--	**153.02**	
20	UP (3rd-4th)	219.89	207.51	302.68	466.05	381.65	449.53	--	--	--	--	**317.52**	**449.53**
21	Uttarakhand (2nd-3rd)	660.22	522.38	594.24	676.39	770.36	866.17	1157.40	1352.88	1581.43	1848.59	**645.74**	**1367.70**
22	WB (3rd-4th)	100.50	99.57	98.68	122.71	136.25	115.54	131.55	149.79	170.55	194.19	**111.71**	**152.72**
All State Average		**490.20**	**510.43**	**612.62**	**682.74**	**748.02**	**794.81**	**1041.15**	**1221.59**	**1324.49**	**1465.27**	**597.62**	**1136.10**
All State Average (with-out Karnataka)		**361.48**	**362.19**	**448.61**	**423.29**	**441.82**	**486.44**	**590.85**	**639.12**	**722.80**	**817.98**	**405.12**	**635.12**
Number of States		*20*	*18*	*18*	*17*	*18*	*18*	*17*	*15*	*14*	*14*		
Min		2340.04	2564.65	2889.90	3814.28	4452.21	4966.28	5637.60	6267.57	6516.94	7061.93	3228.80	6101.04
Max		49.66	39.93	39.54	39.04	38.92	113.48	129.05	146.76	145.29	143.84	47.32	146.75
FC Local Body Grants		**70.12**	**106.23**	**153.81**	**179.17**	**208.70**	**237.69**	**381.68**	**433.20**	**492.48**	**652.76**	**144.68**	**442.33**

Source: Author's calculation based on SFC reports of various states and reports of FC-XIII and FC-XIV.

It can be observed that there is huge variation in the recommended per capita devolution across States.[9] The average per capita recommended devolution for the period 2010-11 to 2014-15 varies between Rs.47.32 (Sikkim) and Rs.3228.80 (Karnataka), the all-state average being Rs.597.62. Between 2015-16 and 2019-20, the average per capita devolution varies between Rs.146.75 in case of Odisha and Rs.6101.04 for Karnataka and the all-state average per capita recommended devolution is Rs.1136.10.

Examination of state-wise recommended per capita devolution numbers reveal that during the period from 2010-11 to 2015-16, the per capita devolution recommended by 4th SFC of Bihar was lowest in 2010-11 and the for remaining four years i.e., from 2011-12 to 2014-15, per capita devolution recommended by the 3rd SFC of Sikkim was the lowest. We find that for the years 2015-16 and 2016-17, per capita devolution recommended by the 1st SFC of Mizoram was lowest amongst the SFCs for which we have information. However, during 2017-18 to 2019-20, the lowest per capita devolution was recommended by the 4th SFC of Odisha. Given the wide variation in the recommended per capita SFC devolution across States, its relative role in financing basic public services by the local governments is an issue that requires deeper examination and is beyond the scope of this paper.

The period 2010-11 to 2019-20 corresponds to the award period of the two Union Finance Commissions, FC-XIII (2010-11 to 2014-15) and FC-XIV (2015-16 to 2019-20). We calculate the per capita local body grants recommended by FC-XIII and FC-XIV. This provides a comparison with the per capita devolution recommended by SFCs. Both these transfers (SFC and UFC) are statutory in nature. The all state average per capita local body grants recommended by FC-XIII works out to Rs.144.68 for its award period and is about 24.21 percent of all state average per capita devolution recommended by SFCs. The local body grants recommended by FC-XIV was substantially higher than that recommended by FC-XIII. The average annual per capita local body grants recommended FC-XIV for the period 2015-16 to 2019-20 at Rs.442.33 is about 38.93 percent of the all state average per capita devolution recommended by SFCs. Thus devolution recommended by SFCs continues to be an important source of revenues for local governments and the local body grants of the Union Finance Commissions supplements the resources of local governments so that they can provide basic services efficiently.

It is true that Panchayats and municipalities are in the Directive Principles of State Policy and are under State's Jurisdiction. The 73rd and 74th Constitutional Amendments do not supersede that position. Since centrality of State governments in deciding the process of decentralisation continues even after the 73rd and 74th Constitutional Amendment, our approach remained sensitive to this aspect. We are not arguing 'one size fits all' policies for the local governments. However, as own revenues of local bodies is very small and most of the central funds are tied in nature, the devolution from SFC is an important source of untied funds to them.

[9] Recommended devolution may be lower than the actual transfers due to various reasons: (a) States accept SFC recommendations, but with some modifications, (b) actual revenues realized by states may differ from those projected by the Commission, (c) state governments, despite accepting SFC recommendations may not transfer the entire amount to local bodies. Ideally, one should compare funds transferred to local bodies by states on the recommendation of SFCs. As this data is not available we have used recommended devolution for comparison across states.

Given the definition of divisible pool differs across SFCs and the devolution recommended by them also varies across states, we express the recommended devolution in different states through a common metric. This common metric could be devolution as a share of own revenue receipts of states or as a share of own tax revenues of states. We find considerable variations in the two ratios across states as evident from Tables 4 and 5. The all state average recommended devolution as percent of states' own revenue receipt varies between 9.6 and 13.7 percent. Expressing recommended devolution as percentage of states' own tax revenues we find that it varies between 11.2 and 15.9 percent during 2010-11 to 2018-19 with Karnataka devolving the highest. Excluding Karnataka, the all state average recommended devolution as percentage of own revenue varies between 7.1 and 7.9 percent (table 4) and between 8.3 and 9.3 percent when expressed as percentage of own tax revenues (table 5).

Table 4: Recommended Devolution as Percent of States' Own Revenue Receipt

State	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Assam (3rd-4th-5th)	11.86	2.92	3.12	3.77	4.64	5.18	4.75	5.01	4.26
Bihar (3rd-4th-5th)	4.45	4.01	3.50	3.18	3.44	8.96	12.35	11.43	13.91
Chhattisgarh (1st-2nd)	3.68	3.77	4.91	5.11	5.51	5.85	6.06		
Haryana (3rd-4th-5th)	3.24	1.99	2.11	2.31	2.54	2.67	4.80	3.92	4.08
HP (3rd-4th-5th)	1.86	1.68	2.10	1.90	2.23	2.24	2.65	2.68	3.10
Karnataka (3rd-4th)	33.10	31.18	31.12	35.96	37.77	39.41	41.23	44.49	41.56
Kerala (3rd-4th)	12.69	13.52	13.85	14.99	15.27	15.59	16.58	16.69	16.26
MP (4th)						4.01	6.05	6.35	5.95
Manipur (3rd)	29.86	26.98	33.34	32.57	39.11	40.26	42.85	41.70	
Mizoram (1st)						6.71	6.28	7.28	8.32
Odisha (2nd-3rd-4th)	5.61	4.51	3.88	3.55	3.21	2.11	2.13	1.85	1.69
Punjab (3rd-4th-5th)	1.94	3.96	3.59	3.77	4.09	4.50	3.70	3.30	2.74
Rajasthan (3rd-4th)	4.92	4.96	4.92	4.84	5.32	6.10	6.59		
Sikkim (2nd-3rd-4th)	0.34	0.18	0.20	0.19	0.20	1.07	1.09	1.17	1.25
TN (3rd-4th-5th)	7.49	6.85	8.17	8.92	9.92	11.26	11.63	9.85	10.27
Tripura (2nd-3rd)	6.15	4.73	4.72	4.62	5.02				
UP (3rd-4th)	8.34	6.71	8.79	11.78	8.65	9.24			
Uttarakhand (2nd-3rd)	12.84	7.76	7.54	8.04	8.51	8.77	10.27	9.36	9.58
WB (3rd-4th)	3.81	3.41	2.58	2.97	3.07	2.49	2.62	3.00	3.45
All State Average	**9.79**	**9.65**	**9.93**	**11.00**	**11.20**	**11.42**	**12.84**	**13.57**	**13.21**
All State Average (without Karnataka)	**7.69**	**7.13**	**7.54**	**7.24**	**7.06**	**7.43**	**7.81**	**7.60**	**7.71**

Source: Calculated using data from SFCs reports and Finance Accounts and 2018-19 Budgets of respective states.

Table 5: Recommended Devolution as Percent of States' Own Tax Revenue

State	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Assam (3rd-4th-5th)	16.61	4.01	4.05	4.91	5.82	6.59	6.46	8.30	7.27
Bihar (3rd-4th-5th)	4.89	4.30	3.74	3.42	3.70	9.73	13.60	12.45	15.90
Chhattisgarh (1st-2nd)	5.25	5.19	6.65	6.93	7.25	7.63	7.88		
Haryana (3rd-4th-5th)	3.90	2.45	2.53	2.76	2.97	3.08	5.68	4.88	5.02
HP (3rd-4th-5th)	2.80	2.46	2.72	2.57	3.01	2.85	3.29	3.45	3.84
Karnataka (3rd-4th)	35.99	33.93	33.41	38.28	40.29	42.20	44.11	48.04	45.11
Kerala (3rd-4th)	13.82	14.88	15.78	17.60	18.42	18.95	20.39	20.70	20.23
MP (4th)						4.86	7.30	7.65	7.14
Manipur (3rd)	61.12	49.82	56.56	50.52	53.02	51.19	54.88	57.78	
Mizoram (1st)						12.29	11.47	12.06	13.89
Odisha (2nd-3rd-4th)	8.01	6.67	5.96	5.31	4.52	2.92	2.88	2.48	2.31
Punjab (3rd-4th-5th)	2.56	4.25	4.01	4.27	4.55	4.95	4.48	3.77	3.52
Rajasthan (3rd-4th)	6.41	6.76	6.88	6.81	7.14	7.66	8.32		
Sikkim (2nd-3rd-4th)	1.75	0.84	0.57	0.47	0.47	1.85	1.84	1.95	2.03
TN (3rd-4th-5th)	8.22	7.51	8.93	10.05	10.97	12.50	12.97	11.01	11.43
Tripura (2nd-3rd)	7.46	5.92	5.56	5.68	5.86				
UP (3rd-4th)	10.60	8.00	10.75	14.69	10.97	11.87			
Uttarakhand (2nd-3rd)	14.81	9.33	9.42	9.48	9.65	9.91	11.54	11.08	11.80
WB (3rd-4th)	4.24	3.59	2.73	3.14	3.19	2.60	2.79	3.21	3.71
All State Average	**11.59**	**11.18**	**11.53**	**13.08**	**13.19**	**13.43**	**15.02**	**15.85**	**15.66**
All State Average (without Karnataka)	**9.17**	**8.33**	**8.84**	**8.77**	**8.45**	**8.87**	**9.29**	**9.01**	**9.31**

Source: Calculated using data from SFCs reports and Finance Accounts and 2018-19 Budgets of respective states.

Whether quantum of devolution recommended by SFCs has any relation with the level of income of States? In order to examine this we plotted the average per capita recommended devolution for the periods 2010-11 to 2014-15 and 2015-16 to 2019-20 against the average per capita income of states for the same set of periods respectively (see scatter plots in Fig 1 and 2). We do not find a clear pattern between the recommended SFC devolution and the level of per capita income of States, but per capita devolution is in general very low across states in India. For most states, the average per capita devolution is lower than the all-state average. However, there are a few outlier states like Karnataka,[10] Kerala (figs 1, 2) and Maharashtra (fig 1).

Expressing total recommended devolution as percent of GSDP of states we find all state average to be less than 1 percent - around 0.82 percent during 2010-11 and 2014-15 and 0.95 percent during 2015-16 and 2019-20 (table 6). We find devolution in Kerala, Manipur and Karnataka to be greater than 1 percent of GSDP with Karnataka being an

[10] Devolution in Karnataka includes salaries of government staff (including teachers, health workers etc.) placed on deputation with Zilla Panchayats, Taluka Panchayats and Gram Panchayats, over which the latter have very little supervisory control. Most plan allocations are towards tied schemes over which the departments maintain tight control. In fact, there is very little untied component in devolution in the State.

outlier. In Karnataka, the devolution is around 3 percent of GSDP. Excluding Karnataka, the all state average recommended devolution is 0.58 percent of GSDP during 2010-11 to 2019-20. Including grants recommended by SFCs, the total recommended transfers as percent of GSDP works out to 0.93 percent during 2010-11 and 2014-15 and 1.02 percent during 2015-16 and 2019-20. Without Karnataka, total transfers as percent of GSDP works out to 0.63 during 201-10 and 2014-15 and 0.69 percent for the period 2015-16 to 2019-20.

Figure 1: Per Capita Devolution and Per Capita Income (2010-11 to 2014-15)

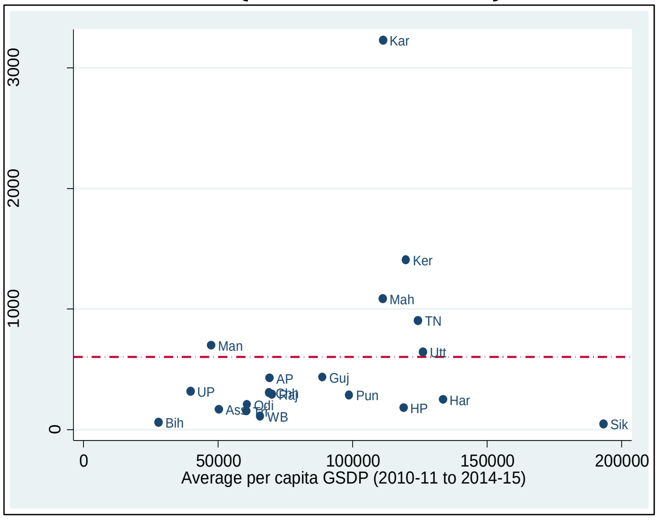
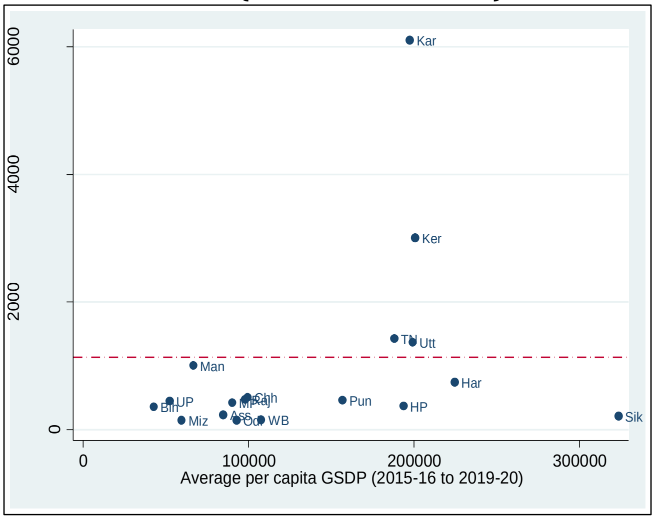


Figure 2: Per Capita Devolution and Per Capita Income (2015-16 to 2019-20)



Note: The dotted horizontal line represents all state average per capita devolution
Source: SFC reports and MOSPI

Table 6: Transfers Recommended by SFCs as Percent of GSDP

	States (SFC)	**Devolution**		**Total Transfers (Devolution + Grants)**	
		Average of		**Average of**	
		2010-11 to 2014-15	**2010-11 to 2014-15**	**2010-11 to 2014-15**	**2010-11 to 2014-15**
1	Andhra Pradesh (3rd)	0.36	--	0.36	--
2	Assam (3rd-4th-5th)	0.33	0.51	0.63	0.59
3	Bihar (3rd-4th-5th)	0.22	0.84	0.28	1.23
4	Chhattisgarh (1st-2nd)	0.45	0.51	0.50	0.54
5	Gujarat (2nd)	0.49	--	0.59	--
6	Haryana (3rd-4th-5th)	0.19	0.33	0.19	0.34
7	Himachal Pradesh (3rd-4th-5th)	0.15	0.19	0.15	0.19
8	Karnataka (3rd-4th)	2.90	3.09	2.99	3.17
9	Kerala (3rd-4th)	1.17	1.50	1.17	1.50
10	Madhya Pradesh (4th)	--	0.47	--	0.47
11	Maharashtra (3rd)	0.98	--	1.47	--
12	Manipur (3rd)	1.48	1.51	2.35	2.44
13	Mizoram (1st)	--	0.25	--	0.26
14	Odisha (2nd-3rd-4th)	0.34	0.16	0.44	0.30
15	Punjab (3rd-4th-5th)	0.29	0.29	0.37	0.35
16	Rajasthan (3rd-4th)	0.42	0.48	0.45	0.50
17	Sikkim (2nd-3rd-4th)	0.02	0.07	1.05	0.12
18	Tamil Nadu (3rd-4th-5th)	0.73	0.76	0.80	0.80
19	Tripura (2nd-3rd)	0.25	--	0.25	--
20	Uttar Pradesh (3rd-4th)	0.80	0.86	0.85	0.86
21	Uttarakhand (2nd-3rd)	0.51	0.69	0.51	0.69
22	West Bengal (3rd-4th)	0.17	0.14	0.17	0.14
All State Average		**0.82**	**0.96**	**0.93**	**1.02**
All State Average (without Karnataka)		**0.58**	**0.58**	**0.69**	**0.63**

Source: Author's calculation based on SFC reports of various states and GSDP data from MOSPI.

4. Approach to Horizontal Devolution

The horizontal sharing of funds recommended by the SFCs between PRIs and ULBs in most States is on the basis of rural and urban population or based on composite index comprising of various indicators, viz., population, SC/ST population, density of population, area, percentage of illiterates, percentage of people below poverty line, etc. as evident from table 7.

The following observations can be made from the table: (i) The share of PRIs is dominant in most States except Uttar Pradesh and Uttarakhand; (ii) the share of PRIs is more than 65 percent in most States except Gujarat, Maharashtra and Tamil Nadu; (iii) Manipur and Mizoram have kept aside a sizeable portion of the divisible pool to be shared with local bodies in the Autonomous District Councils. The SFCs in Assam and Tripura has also made recommendations for revenue sharing with local bodies in Schedule VI areas.

However, it should be mentioned that the task of SFCs in correcting horizontal imbalances is extremely onerous when compared with that of Union Finance Commissions as SFCs have to consider nearly 2.5 lakh local governments to promote minimum basic services in rural and urban areas (Oommen, 2018).

Table 7: Horizontal Distribution between PRIs and ULBs (in %)

	States	PRIs	ULBs	Remarks
1	Andhra Pradesh (3rd)	--	--	Devolution based on assignment and grants
2	Assam (5th)	--	--	Distribution between General and Sixth Schedule areas and between PRIs and ULBs determined on the basis of needs of local bodies as assessed by the Commission.
3	Bihar (5th)	70 60	30 40	70:30 in 2015-16. Ratio to be 60:40 for 4 years from 2016-17. No specific criteria but more resources to be transferred to ULBs.
4	Chhattisgarh (2nd)	76.8	23.2	Distribution based on population (2011 census)
5	Gujarat (2nd)	62.64	37.36	Distribution based on population (2001 census)
6	Haryana (5th)	55	45	Distribution based on population (2011 census) and area in the ratio 80:20.
7	Himachal Pradesh (5th)	--	--	No specific criteria. Adopted a gap filling approach for devolution. Funds to be devolved to PRIs and ULBs derived by including salaries of staff, honorarium of members, office expenses, TA/DA expenses.
8	Karnataka (4th)	75	25	Distribution based on eleven indicators under three domains which are common to both rural and urban areas: (i) Demography (net increase in population, area, SC/ST population, Illiteracy), (ii) Decentralised Governance, and (iii) Basic Household Amenities (2011 census).
9	Kerala (5th)	--	--	Devolution comprises of General Purpose Fund (GPF), Maintenance Fund and Development Fund. Each Fund has its own distribution criteria
10	Madhya Pradesh (4th)	73	27	Distribution based 70% on population (census 2011), 15% on area and 15% on ST/SC population
11	Maharashtra (4th)	55	45	Distribution based on population (census 2011)
12	Manipur (3rd)	35.28	22.49	The remaining 42.33% of the total devolution is shared by the Autonomous District Councils (ADCs). Distribution based on population (2011 census).
13	Mizoram (1st)	24.17	17.50	The remaining 58.33% of devolution is for ADCs

	States	PRIs	ULBs	Remarks
				Distribution among ADCs, Village Councils (VCs) and Aizawl Municipal Council (AMC) based on weighted average of 2011 population, weights being the proportion of estimated non-plan expenditure requirement of each layer of local body during the award period.
14	Odisha (4th)	75	25	The sharing ratio arrived at based on population (30%); density of population (30%); percentage of persons below poverty line (20%); literacy rate (10%); SC/ST concentration (10%)
15	Punjab (5th)	--	--	60% share of State taxes be distributed between PRIs and ULBs in the ratio of their 2011 census population. 40% share of State taxes be distributed between PRIs and ULBs on the basis of and in proportion to gaps in the projected revenue and expenditure figures during 2016-17 to 2020-21. While PRIs will have surplus and ULBs will be in deficit during 2016-17 to 2020-21, this 40% share will go to ULBs alone.
16	Rajasthan (4th)	75.1	24.9	Distribution based on population (2011 census)
17	Sikkim (5th)	70	30	Distribution based on expected rural and urban population during 2020-25
18	Tamil Nadu (5th)	56	44	The sharing ratio as per the needs (O&M and Capital), and Infrastructure creation in RLBs and ULBs)
19	Tripura (3rd)	--	--	Distribution between PRIs and RLBs of Sixth Schedule Areas based on assessment of the pre-devolution gap for these LBs
20	Uttar Pradesh (4th)	40	60	No specific criteria
21	Uttarakhand (4th)	45	55	No specific criteria but based on multiple factors like the roles, responsibilities and committed liabilities of PRIs and ULBs and increase in urbanisation made commission decide on this ratio.
22	West Bengal (4th)	--	--	No criteria. From each years recommended devolution, funds for ULBs set aside based on estimated cost of providing services by them. The balance funds forms PRIs share.

Source: Reports of State Finance Commissions of respective states.

5. Recommendations of SFCs and Responsiveness of State Governments

State Governments have often questioned the quality of SFC reports and used this as a reason form not accepting their recommendations. In this section we examine the recommendations of SFCs and the response of state governments - whether the recommendations have been accepted or not? Is it that the state governments have arbitrarily rejected these recommendations or are the SFCs themselves to be blamed for non-acceptance of their recommendations? We examine the quality of SFC recommendations from the point of view of their implementability? To what extent are these recommendations practical and based on proper analysis and assessment of resource needs of the two tiers of government – state and local, given their revenue assignment and expenditure responsibilities. We restrict our analysis to recommendations concerning devolution only.

A review of the available ATRs of latest SFCs of 20 states reveal that as far as recommendations regarding devolution is concerned, these were more or less accepted by a large number of states without any modifications. However, recommendations of the 4th SFC of Karnataka, 3rd SFC of Manipur, 4th SFC of Rajasthan, 4th SFC of Uttar Pradesh and 4th

SFC of West Bengal were accepted with some modifications. The original recommendations of these SFCs were modified by the state governments keeping in view its expenditure commitments/requirements for other sectors, before implementing them. For example, in the case of Karnataka, the 4th SFC had recommended devolving 48 percent of the Non Loan Net Own Revenue Receipts (NLNORR) to the local governments during its award period 2018-19 to 2022-23.[11] It also recommended that the Union Finance Commission grant to local bodies will not form part of the NLNORR. However, the state government decided to transfer 48 percent of NLNORR in a phased manner: 43 percent in 2018-19, the first year of its award period and then gradually increasing to 48 percent in 2022-23, the terminal year of its award period. The government also included the Union Finance Commission grant as part of the NLNORR. The 3rd SFC of Manipur recommended sharing 10 percent of State's own revenue including state's share in central taxes and duties while the 4th SFC of Uttar Pradesh recommended devolving 15 percent of State's own tax and non-tax revenues net of cost of collection. However, the state government altered the divisible pool and decided to transfer 10 percent of the gross state's own tax revenue to the local bodies in Manipur and 15 percent of State's own tax revenue net of cost of collection in Uttar Pradesh.

It was not clear from the ATR whether the recommendations of the 2nd SFC of Gujarat was accepted or rejected. The action taken report of the Gujarat government for its 2nd SFC is silent on this issue. The ATR also points out that despite accepting many recommendations – both financial and non-financial, the state government implemented only a few of them.[12]

The recommendations of the 5th SFC of Kerala, 4th SFC of Madhya Pradesh and 4th SFC of Maharashtra were rejected by the respective state governments. We explore the reasons for such rejection. While Kerala Government gave reasons for not accepting the recommendations, no reason was provided by the Governments in Madhya Pradesh and Maharashtra in their respective ATRs.

The 5th SFC of Kerala decided to follow the Union Finance Commissions' approach and devolve funds based on the estimate made for the year of devolution (t) and accordingly allocated funds to each of the local government using this principle. The Commission recommended considering net proceeds of state own tax revenue (SOTR) after deducting collection charges for sharing the State resources in all items of devolution. In other words, the Commission recommended devolution of resources based on Budget estimates of SOTR received in the current year. The State government rejected the recommendations on the grounds that transfers from State to local governments are substantial in volume and any uncertainty on this score will adversely affect the project approval and consequent delay in implementation of development programmes of the local governments. It is difficult to get data on current year state own tax revenue at the appropriate time. Moreover, adjustments of the provision for development funds of a particular financial year in the coming years will lead to chaos in the preparation of projects. The current system of (t-2) where devolution of resources is based on the proceeds of SOTR received two years back has proved to be a successful formula in the devolution from State to the

[11] The recommended devolution also includes salaries which account for more than one third of total expenditures of local governments.
[12] http://gstfc.gujarat.gov.in/downloads/action_taken_report_2_n.pdf

local governments. The state government, however, accepted the Commission's recommendation of considering net proceeds of SOTR net of collection charges for sharing the State resources in all items of devolution. Thus we see that the Commission's recommendation would have resulted in uncertainty in the flow of resources of local governments and hence was not implemented by the state government.

The 4th SFC of Maharashtra had recommended devolution of 40 percent of state's own tax and own non-tax revenues to local government. The state government did not accept the recommendation of the SFC. It also did not provide reasons for not accepting the recommendation of the Commission. Given its expenditure commitments/requirements, the state government may not be in a position to transfer 40 percent of its own revenues to local bodies. The SFC, it seems might not have done a realistic assessment of the expenditure needs of the state government. This could be a reason for state government not accepting the Commission's recommendation. From the ATR it was not clear the quantum of funds that would be transferred to local bodies in the state during the award period of the Commission.

In the case of 4th SFC of Madhya Pradesh, the Commission was constituted in January 2012 and it was to make recommendations for the award period 2011-12 to 2015-16. The report of the Commission was delayed and its final report was submitted in January 2017, after its award period was over. The state government did not accept the recommendation of the Commission to implement the recommendation of its interim report for the year 2015-16 and for the period 2016-17 to 2018-19 implement the recommendation of its final report. Instead, the state government extended the recommendations of the 3rd SFC to cover the period from 2015-16 to 2017-18. However, for the years 2018-19 to 2019-20, the state government left it to the 5th SFC to decide in its interim report the approach towards devolution of funds to local bodies in the state. Thus, we see that in Madhya Pradesh, the inordinate delay in the submission of report by the 4th SFC resulted in the rejection of its recommendations.

In all these cases we see that the SFCs were themselves were responsible for the rejection of their recommendations. In the case of Kerala, the state government not only gave reasons for not accepting the recommendations but also provided details as to how the funds will be transferred to the local governments during the award period of the Commission. This however, was not the case with the recommendations of 4th SFC of Madhya Pradesh and 4th SFC of Maharashtra. It was not clear as to how the resources would be shared with local governments in these two states. The uncertainty in the flow of resources to local governments will have an adverse impact on the quality of public services provided by them.

In all the three instances the state governments could not implement the recommendations of the SFCs. In Kerala, there were issues in getting current year data on SOTR at the appropriate time and making adjustments in the transferred funds to local governments once when the revised data on SOTR becomes available and then again when the actual data becomes available This would have resulted in a lot of uncertainty and chaos in the flow of resources to local governments. As a result, the state government was constrained to implement this recommendation of the Commission. In the case of Maharashtra, the SFC's assessment of the needs of the two tiers of government was inaccurate/flawed and the government was constrained to implement the recommendation of the Commission. In Madhya Pradesh, the report of the Commission was delayed so much that the government had no alternative but to extend the recommendations of the pervious SFC.

However, these are not isolated cases. Review of ATRs of SFCs of states starting from the first SFCs till the latest reveal that the recommendations of several SFCs were rejected by the state governments. The state governments were constrained to implement many of these recommendations on the grounds that they were not based on proper assessment of the needs of the two tiers of government, or the quality of assessment was found to be inadequate/poor, or the reports were so delayed that the state government had no option but to extend the recommendations of the previous SFC or recommend ad hoc transfers to local governments. Whatever be the reason, in all such cases the local governments were deprived of a steady and predictable flow of resources thereby adversely affected the public services delivery.

Related to the quality of SFC reports is the issue of the composition of State Finance Commissions. Important matters - legal, economic, financial and administrative, as well as those relating to decentralization - need to be examined by SFCs, and hence SFC chairperson and members should be well equipped to meet these challenges. Having individuals with no experience, expertise or knowledge in the requisite field, as chairperson or member of SFC adversely affects the quality of SFC reports. Article 243-I (2) of the Constitution Amendment Act mandates "the Legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as members thereof and the manner in which they shall be selected." Several states have either specified the qualifications of persons eligible for appointment as Members of SFC in their respective conformity acts or such provisions are governed by separate acts or prescribed by the state government through executive Notifications/Rules.

Despite many states having statutory provisions specifying the qualifications of persons eligible for appointment as Members and Chairperson of SFC, our examination of the SFC reports of 25 states reveal that in practice majority of the Members and Chairpersons are bureaucrats (either serving or retired) and politicians. It is also a common practice by states to appoint serving government officers as chairperson and members of the SFCs and that too in ex-officio capacities. This puts limitations on the ability of the SFC to act as an autonomous body to make recommendations in a free and independent manner, as has been envisioned in the Constitution.

Successive Union Finance Commissions (FC-XI, FC-XII, and FC-XIII) have expressed concern over the fact that the Members and Chairperson of SFCs often lack professionalism and required aptitude. In order to improve the quality of SFC reports, they insisted that States should take necessary initiatives to appoint Chairpersons and Members of the SFCs from amongst experts in specific disciplines and with people of eminence and competence. They have pointed out that as to the composition of SFCs, states may be well be advised to follow the central legislation and rules which prescribe the qualifications for the Chairperson and Members and frame similar rules. It is important that experts are drawn from specific disciplines such as economics, public finance, public administration and law. In order that the concerns of both rural and urban local bodies are adequately addressed, it is suggested that at least one member with specialization and/or experience in matters relating to the PRIs and another similarly well versed in municipal affairs must be appointed in the SFC. FC-XIII, in order to incentivize States to prescribe the qualifications for the chairperson and members, linked the passage of relevant legislation with the performance grant awarded by it. FC-XIV recommended that the basic grant component of its local body grant for gram panchayats and urban local bodies should be distributed among them, using the formula prescribed by the respective SFCs for the distribution of resources. The Commission further recommended that the state governments should apply the distribution formula of the most recent SFC, whose recommendations have been accepted.[13] This approach in a way puts pressure on the state governments to ensure periodic appointment of SFCs.

6. Conclusion

An important issue in sub-state decentralization is the centrality of State governments. In that context, one size fits all decentralization approach is neither desirable nor is it intended in the Constitutional provisions. At the same time, it is important that the differences in approaches of various SFCs are not really based on this rationale. As far as the operational aspects are concerned it is observed that despite having statutory provisions for timely constitution, constitution of SFCs is delayed in many States. States have not constituted their SFCs at regular intervals. Review of the latest SFC reports of 25 states reveal that the average time taken by them to submit report is around 32 months resulting in an average delay of about 16 months. Moreover, states also appear not to have acted promptly on the recommendations of SFCs by not placing the ATRs before the State legislature in a timely manner. All this means that there is very little time left to be governed by the recommendations of SFCs.

Non-availability of office space, technical staff and basic office infrastructure like computers, office furniture and other supporting logistics resulted in considerable time loss. SFC reports are also delayed due the absence of reliable data relating to local governments. Another important reason for the delay in SFC reports is the unreasonable time assigned by the states to SFCs to submit their report.

The other important finding of this review is the differences in the treatment of divisible pool by individual SFCs. Although, the core ToR of all SFCs is clear about what is divisible, different SFCs have defined divisible pool differently. This makes comparison of SFC awards across different states extremely difficult. However, when SFC awards are converted in per-capita terms or expressed as a share of own tax revenue or own revenues of states, we observe wide variations across States. We also do not find any relationship between per-capita incomes of a state and recommended per capita devolution. But devolution in general is very low across states.

Non-availability of data of the finances of local governments and infrastructure support is hampering the quality of SFC work in many States. Questionnaire based collection of data by many SFCs, puts a huge question mark on the quality of data used by SFCs. Quality of SFC reports is also affected by the appointment of members and chairperson who have no experience, expertise or knowledge in the requisite field. We find that de-

[13] The Commission prescribed that in case the SFC formula is not available, then the share of each gram panchayat should be distributed across the entities using 2011 population with a weight of 90 percent and area with a weight of 10 percent; and in the case of urban local bodies, the share of each of the three tiers will be determined on the basis of population of 2011 with a weight of 90 per cent and area with a weight of 10 per cent, and then distributed among the entities in each tier in proportion to the population of 2011 and area in the ratio of 90:10.

spite many states having statutory provisions specifying the qualifications of persons eligible for appointment as Members and Chairperson of SFC, in practice majority of the Members and Chairpersons are bureaucrats (either serving or retired) and politicians. When serving government officers are appointed as chairperson and members of SFCs and that too in ex-officio capacities, it puts limitations on the ability of SFC to function as an autonomous body to make recommendations in a free and independent manner. It is important to appoint commissions comprising of chairperson and members who are drawn from specific disciplines such as economics, public finance, public administration and law. It is suggested that at least one member with specialization and/or experience in matters relating to the PRIs and another similarly well versed in municipal affairs must be appointed in the SFC.

For SFC to function as an institution to promote decentralization, the focus needs to be multi-dimensional focusing on improving the process, the data collection and sharing as well as improving the quality of SFC reports.

Acknowledgement

The paper was presented in the Roundtable on Fiscal Federalism in India: Contemporary Perspectives organised by Ernst & Young and Madras School of Economics during 22-23 February 2019 at Chennai. The authors would like to thank the participants for their comments. In particular, the authors would like to thank Dr. C. Rangarajan, Dr. D.K. Srivastava and Dr. Ashok Lahiri. Comments received from Dr. M. Govinda Rao on an earlier version of the paper is gratefully acknowledged.

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