Concerns on State Finance Commissions

What is the issue?

\n\n

States have not been setting up their State Finance Commissions(SFC) every five years as mandated by the 73rd Amendment Act, 1992.

\n\n

What are its constitutional mandate?

\n\n

\n
- The state finance commissions were added by 73rd amendment act.
\n
- They have been enshrined in article 243-I and 243-Y in Part IX A and IX B and are constituted by Governor every five years.
\n
- Their Primary concern is to suggest ways and means to strengthen the institutions of local governance. (Panchayati raj institutions and Urban local bodies)
\n
- They recommend principles and methodology as regards the devolution of funds to PRI's and ULB's.
\n
- The recommendations of the state finance commissions include:
\n

\n\n

\n
1. The distribution between the State and the local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the State.
\n
2. Determination of the taxes, duties, tolls and fees levied or appropriated by the local bodies
\n
3. The grants-in-aid to the local bodies from the Consolidated Fund of the State
\n
4. Measures needed to improve the financial position of the local bodies

\n

\n\n

\n

- The governor is required to place every recommendation made by the SFC and actions taken by the state governments on it before the state legislature.
\n

\n\n

What are the concerns?

\n\n

\n

- There are many cases where the recommendations of an SFC have neither been formally accepted by the State government, nor was the SFC report laid before the State legislature.
\n
- There are also instances where the State government, despite having accepted its SFC's recommendations fully or partially, has not implemented them.
\n
- These developments have affected empowerment and finances of local bodies.
\n
- States like Manipur witnessed a gap prevailed between the recommendation of successive SFCs and the State government's actual fund transfer to its hill districts' local bodies.
\n
- It results in accentuating the grievances of hill tribes against their counterparts in the plains.
\n

\n\n

What is the role of central finance commissions?

\n\n

\n

- Central finance commissions, while recommending on the overall devolution from the central pool of divisible resources to the States, factor in recommendations given by SFC to their respective states.
\n
- The 14th FC had recognised that governing cities is becoming a major challenge because of shortage of finances, weak institutional framework and lack of capacity for service delivery.

\n

- It observed that the rural local bodies were in many cases not equipped to perform their core functions.

\n

- It recommended a total devolution of Rs.2,87,436 crores for all the local bodies, constituting an assistance of Rs.488 per capita per annum at an aggregate level.

\n

- The present 15th Finance Commission (FFC) is also tasked “to consider provision of grants-in-aid to local bodies for basic services, including quality human resources, and implementation of performance grant system in improving delivery of services”.

\n

- The FFC has to recommend specifically the amount to be devolved to the States during its award period (2020-25) for local bodies.

\n

\n\n

What should be done?

\n\n

\n

- As per the existing system, all funds devolved to States on recommendations of CFC are directly transferred to State governments’ treasuries.

\n

- The Fifteenth Finance Commission should recommend that the funds earmarked for PRIs and ULBs, should be managed through **public financial management system**.

\n

- It would track flow of funds on a real-time basis and will eliminate delays in transfers to local bodies.

\n

- A portion of the earmarked funds for PRIs and ULBs could be distributed as **incentive** to States which constitute their SFCs as per the constitutional norm.

\n

- This should empower them to raise tax and non-tax revenue in areas specified by FFC and SFCs.

\n

- Local bodies of States performing better will gain, which should induce the other State governments to be more conscious of their responsibilities.

\n

- Local bodies are the interface between State institutions and the public towards obtaining basic services.

\n

- Hence, the 15th Finance Commission must incentivise the States to constitute their SFCs and empower their local bodies.
\n
- The role of governors is also crucial as a benevolent institution of oversight and ensuring vibrant functioning of local bodies.
\n

\n\n

Source: Business Line

\n\n

\n\n

.

\n\n

\n\n

\n