International Journal of Academic Research
ISSN: 2348-7666; Vol.4, Issue-9, September 2017
Impact Factor: 6.023; Email: drtvramana@yahoo.co.in

State Finance Commissions and State - Pris Financial Relations

K Sivaji, Asst Professor, PG Department of Economics, Sir. C.R.R College, Eluru, West Godavari, AP.

Abstract: *The Recommendations of the State Finance Commissions (SFCs) have had a noticeable impact on the financial relations between the states and the Panchayati Raj Institutions (PRIs). While attempting to substantially augmenting the resources flow, the SFCs have also sought to redefine and rationalise various aspects of the state – PRI fiscal relationship. Though the recommendations are yet to be actualised in many states, the indications are favourable and with a few caveats, could lead to a thorough restructuring of the role of the PRIs in ensuring effective self-governance and integrated development. The paper seeks to examine these issues in some detail.*

Introduction

The Constitution (73rd Amendment) Act, 1993 which came into force on 24th April, 1993 was instrumental in radically restructuring the form, status and functions of the Panchayati Raj Institutions (PRIs). Through this amendment a new part i.e. Part IX was added to the Constitution covering various structural, organisational, functional and financial aspects of the Panchayati Raj.

Under Article 243-H of the Constitution, state legislatures have been empowered to enact laws:

I. To authorise a panchayat to levy, collect and appropriate certain types of taxes, duties, tolls and fees;
II. To assign to a panchayat, certain types of taxes, duties, tolls levied and collected by the state government; To provide for making grants-in-aid to the panchayats from the Consolidated Fund of the state; and
III. To provide for constitution of such funds for panchayats for crediting all money received by or on behalf of panchayats and also the withdrawal of such money therefrom.

Article 243-I of the Constitution provides for constitution of a State Finance Commission every fifth year to review the financial position of panchayats and to make recommendations to the Governor regarding the principles governing the major financial and taxation issues mentioned in Article 243-H.

Appreciative of the fact that states would require augmentation of their own resources before they could devolve adequate finances to panchayats to make them viable institutions of self-government, the Constitution (73rd Amendment) Act amended Article 280 of the Constitution on Central Finance Commissions by inserting the following sub-clause :

"280 (3) (bb) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the panchayats in the state on the basis of recommendations made by the Finance Commission of the state".

As stipulated by the Constitution, states have already constituted State Finance Commissions. In quite a few states, the Finance Commissions have already submitted their reports. In many states such as Karnataka, Kerala, Tamil

Nadu, Rajasthan, Madhya Pradesh, Tripura, and West Bengal, their reports or recommendations have been accepted by the state governments. Keeping in view the provisions of Article 290 (3), and taking into consideration the fact that it would take some time for the reports of the SFCs to come, the Tenth Finance Commission (TFC) has suggested Grants-in-Aid (GIA) amounting to Rs. 4380 crore covering the period 1996-2000 for the Local Bodies (LBs) in all the States/ UTs to supplement the efforts of the concerned states. Simultaneously, the Department of Expenditure has issued detailed guidelines governing the use of such funds. The TFC recommendations are based on the ad-hoc assessment of the "needs" of the rural population, currently set at Rs. 100 per capita. As already mentioned, these funds are to be in the nature of "additionality", over and above the tax sharing/devolution assignment/grant. Respective State Finance Commissions would suggest mechanisms for sharing financial re-sources with the local governments.

India‘s decentralisation initiative, in the form of Seventy-third and Seventy-fourth Amendments, poses challenges and offers opportunities. In addition to ensuring constitutional validity to local bodies, these legislations have also broadened the range of power and functions of local governments the provisions concerning to the constitution of State Finance Commissions (SFCs) aim to rationalize state-local fiscal relations, assume special significance. The states are required to constitute Finance Commissions, once in every five years, to recommend their legislatures, measures to improve the finances of the Panchayats. The State Finance Commissions have so far not been able to come up with comprehensive mapping of state resources. Accordingly their recommendations do not provide well-defined system for sharing of resources between state and local governments. The central finance commissions generate and use huge data before arriving at their recommendations. These recommendations are based on logical data analysis. But most of SFCs recommendations are adhoc in nature and the State Governments don‘t take them too seriously.

Context:

Article 243 (I) of the Indian Constitution prescribes that the Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor as to.

a) The principles which should govern:
   - ❖ The distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
   - ❖ The determination of the taxes, duties, tolls and fees which may be assigned as, or appropriated by, the Panchayats;
   - ❖ The grants-in-aid to the Panchayats from the Consolidated Fund of the State;

b) The measures needed to improve the financial position of the Panchayats;

c) Any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.

Article 243 (Y) of the Constitution further provides that Finance Commission constituted under Article 243 (I) shall make similar recommendation vis-à-vis municipalities.

The Governor is required to cause every recommendation made by the State Finance Commission together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State.

In terms of articles 243 (I) and 243 (Y) of the Constitution, the state finance commissions are to recommend.

- ❖ The principles that should govern the distribution between the state on the one hand and on the local bodies on the other of the net proceeds of the taxes etc leviable by the state and the inter-se allocation between different panchayats and municipalities;
- ❖ The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the local bodies;
- ❖ Grants in aid from the consolidated fund of the state to the local bodies.

The importance of State Finance Commissions (SFCs) in the scheme of financial decentralization is that besides arbitrating on the claims to resources by the state government and the local bodies, their recommendations would impart greater stability and predictability to the transfer mechanism.

State Finance Commission's recommendations are generally based on the following considerations:

a) Financial review of the local bodies for the last six/seven years
b) Recommendations of the previous state finance Commission
c) Recommendations of the central finance commission
d) State‘s financial position
e) Existing system of data collection and its maintenance
f) Revenue resource and its demand for next five years

State Finance Commission: Ways Forward

Unlike National Finance Commission (NFC), the SFC as an institution has to start from scratches and handle a constituency whose units run into large numbers of local governments. NFC‘s direct subjects are the Union and State governments whereas those of SFCs are the state concerned and the local bodies in the state.

Recommendations of Central Finance Commissions

There has been considerable progress in the empowerment of Panchayati Raj Institutions (PRIs) and municipalities since the Tenth Finance Commission (FC-X) first made a provision for explicitly supporting local bodies through grants, subsequent to the passage of the 73rd and 74th amendments to the Constitution in 1993. Approximately 30 lakh representatives are regularly elected to about 2.5 lakh local institutions all over the country. Providing basic services at the grassroots level makes them the primary interface of the citizens‘ interaction with the government. The principle of subsidiarity implies that matters are best handled by the least centralised competent authority. Following this, these institutions need to be adequately empowered–both functionally and financially—to enable them to fulfill the role envisaged for them in the Constitution. The State Finance Commissions (SFCs), which buttress the functioning of local bodies, also need to be strengthened so as to make their functioning more predictable and the process of implementing their recommendations more transparent. A number of recommendations were made by FC-XI and FC-XII towards this end. Some of these recommendations, though important, have not been implemented so far. More needs to be done to promote effective decentralisation. We also need to put in place a stronger incentive mechanism aimed at persuading State Governments to decentralise further.

References:

- ❖ Constitution of India
- ❖ Bohra O.P (1993), State-Local Fiscal Relations
- ❖ Dubey, A.K and Mitra, Sanjay,(1995), “Planning and Finance for Panchayati Raj Institutions” in Kurukshetra, April, 1995.
- ❖ Guham, S., Report of the Tenth Finance Commission, Economics & Political Weekly, April 22, 1993
- ❖ State Finance Commission, Report.
- ❖ State Finance Accounts, Comptroller & Auditor General of India.