

FINANCIAL MATRIX FOR EMPOWERMENT
Design of Inter Governmental Fiscal Transfers in India to Rural Local
Governments

Report

Study Sponsored by



सत्यमेव जयते

15TH FINANCE COMMISSION

Commissioned to



Indian Institute of Public Administration
New Delhi-110 002

June 2019

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by

V. N. Alok

With inputs from

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Preface

"I believe in cooperative federalism", declared Prime Minister Narendra Modi in his first session of Parliament. In his assertion, the Prime Minister's connotation of 'cooperative federalism' was somewhat similar to the notion advanced in other federations, particularly Germany and the US, where the concept has been used to make local and sub-national governments work in tandem with their federal governments to achieve shared national goals.

In the last five years, the story of cooperative federalism unfolded almost everyday in India. The recommendations of the 14th Finance Commission and the Terms of Reference of the 15th Finance Commission are the key elements in this process. The mechanism that determines funds flow to States has undergone a sea change enabling their governments to enhance their own fiscal space which was restricted due to discretionary fiscal transfers in the past from the Union to the States. Likewise, the Commission also recommended strengthening State Finance Commissions (SFCs) to improve the State local fiscal relations and to streamline funds flow to local governments for efficient delivery of local public goods. But at best, these have been proved to be half-baked measures. The SFCs and *Panchayats* are still weak and need support from authorities at the Union including the 15th Finance Commission and State levels. In addition to the Constitutional mandate enshrined in Article 280 (3) bb, the President of India has asked the Commission to consider proposing measurable performance based incentives for the States at the appropriate levels of governments in areas, including a provision of grants to *Panchayats* for basic services and quality human resources.

Against this backdrop, the author of this report is grateful to the 15th Finance Commission for entrusting to the Indian Institute of Public Administration (IIPA) the study on "Design of Intergovernmental Fiscal Transfers to Rural Local Governments and Resource Gaps" through the reviews of the earlier finance commissions' reports and other available literature on theory and practices. The author is also grateful to the Commission and particularly to its Chairperson, Shri N K Singh, for recognizing the need of this work and entrusting it to us. We're equally thankful to Commission's Members particularly Shri Shaktikant Das and Dr. Ashok Lahiri and Secretary Shri Arvind Mehta for their valuable comments during the author's presentation in the Commission. Dr Antony Cyrus, Economic Advisor and Shri Kandarp Patel, Joint Director supported us as and when needed. We are thankful to them and their colleagues.

Study of this kind is not possible without administrative support from the Institute. The author is thankful to his colleagues in the Administration of the Institute, particularly Registrar Amitabh Ranjan, Deputy Registrar Mithun Barua and Assistant Registrars Mythili and Rameshwar Kardam for their good care as and when needed. Librarian R.K. Yadav and his colleagues in the IIPA Library always remained ready to help the research team. Shonit Nayan, Nishu Verma, Ashish Kumar, Damini Singh and Yumna Jamal provided excellent research support throughout the study and helped a great deal in putting things together in the preparation of the report. Mahesh Bist and Seema Girdhar provided efficient typing assistance. A chapter on practices in other federal countries has been drafted by Nishu Verma and Yumna Jamal without any exposure in those countries, hence gaps in the coverage is inevitable. However, the team did its best to collect information from different sources. Friends in international organizations in India and abroad also helped. We are grateful to all of them and particularly to Rupak Chattopadhyay, Anwar Shah and Nico Steytler.

Lastly, the author would like to express his sincere gratitude to Shri T N Chaturvedi, Chairman of the IIPA, for his encouragement in this study. Our gratitude is due to Shri Surendra Nath Tripathi, Director, IIPA, for his valuable guidance and encouragement.



V N Alok

List of Abbreviations

ALC	Australian Loan Council
ALGA	Australian Local Government Association
ATN	National Treasury Contributions /Aportes del Tesoro Nacional
CAG	Comptroller and Auditor General of India
CFI	Federal Council of Investments/Consejo Federal de Inversiones
CGC	Commonwealth Grants Commission
CHT	Canada Health Transfer
COAG	Council of Australian Governments
COFS	Committee On Fiscal Statistics
CPI	Consumer Price Index
CSIM	Core Civic Services Infrastructure Maintenance
CST	Canada Social Transfer
DDPG	Decline in Decadal Population Growth
DDP _{pc}	Per-capita District Domestic Product
DHPI _{pc}	Distance from Highest Per Capita Income
DLFA	Director of Local Fund Audit
DPC	District Planning Committee
FAC	Fiscal Arrangement Committee
FAGs	Financial Assistance Grants
FAGP	Financial Assistance Grant Programme
FEDEI	Fund for the Electric Development of the Interior
FFC	Financial and Fiscal Commission
FONAVI	National Housing Fund/Fondo Nacional de la Vivienda
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
HDI	Human Development Index
HFE	Horizontal Fiscal Equalization
ICMS	Tax on Circulation of Products and Services
IDBI	Integrated Development Backwardness Index
IGA FFR	Intergovernmental Agreement on Federal Financial Relations
IGFF	Intergovernmental Fiscal Transfer
IGVAO _{pp}	Inverse of Gross Value of Agriculture Output Per Person

ILO	International Labour Organization
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IPI	Tax on Industrialized Goods/Imposto sobre Produtos Industrializados
IPTU	Urban Property Tax
IPVA	Motor Tax/Imposto Sobre a Propriedade de Veiculos Automotores
ISS	Services Tax
ITBI	Property Transfer Tax/ Imposto Sobre a Transmissao de Bens Imoveis
ITR	Rural Land Tax/Imposto Territorial Rural
LGES	Local Government Equitable Share
MoPR	Ministry of Panchayati Raj
MoSPI	Ministry of Statistics and Programmed Implementation
NAL	Number of Agriculture Labor
NCBF	National Capacity Building Framework
NSC	National Statistical Commission
OECD	Organization for Economic Co-operation and Development
ORM	Own Revenue Mobilization
PAGV	Programme of Argentina for Vulnerable Groups
PAITID	Proportion of Agricultural Income in Total Income of the District
PAMI	National Institute of Social Services for Retirees and Pensioners
PEAIS	<i>Panchayat</i> Empowerment and Accountability Incentive Scheme
PHC	Primary Health Clinics
PIT	Personal Income Tax
PPP	Purchasing Power Parity
PROFE	Federal Program Include Health/Programa Federal de Salud
RBI	Reserve Bank of India
RES	Representative Expenditure System
RTS	Representative Tax System
SEB	Socio-Economic Backwardness
SFC	State Finance Commission
SNG	Sub-National Government
SPP	Specific Purpose Payment
UDI	Under Development Index
UFC	Union Finance Commission
UNDP	United Nations Development Programme

VAT	Value Added Tax
WB	World Bank
10 th FC	10th Finance Commission
11 th FC	11th Finance Commission
12 th FC	12th Finance Commission
13 th FC	13th Finance Commission
14 th FC	14th Finance Commission
15 th FC	15th Finance Commission

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DESIGN OF INTERGOVERNMENTAL FISCAL TRANSFERS IN INDIA TO RURAL LOCAL GOVERNMENTS

Executive Summary

Like many other federations, local governments in India are supposedly responsible for rendering essential services, including sanitation, drinking water, primary health, street lighting and roads. They are also empowered to collect certain tax and non-tax revenues. However, in most cases, considerable gap between own resources and requirements can easily be seen. The gap is more noticeable in the case of rural local governments (*Panchayats*) than their counterparts in urban areas due to their narrow resources base. Both these local governments largely depend upon the financial support from their respective State Governments. In this summary an attempt is made to objectively present the potential of the corrective measures that the 15th Finance Commission (15th FC) could take for local governments in India.

The Legal Framework

With the passage of the 73rd Constitution Amendment Act (CAA) panchayats got recognition in the statute book as institutions of self-government in India. This accelerated the process of decentralization with greater devolution and delegation of powers to rural local governments. Consequently, Part IX has been inserted in the Constitution for *Panchayats* and the State legislature has been made responsible to assign responsibilities to *Panchayats* in the matters listed in the Eleventh Schedule to the Constitution. The State is also expected to transfer the concomitant powers to enable the *Panchayats* to carry out the responsibilities conferred upon them.

Table 1: Numbers of *Panchayats* in each State/UT as on 1st April 2019

Sl. No.	State/UT	Levels of <i>Panchayats</i> (Numbers)				Rural Population per VP
		District ³	Block ²	Village ¹	Total	
1	Andhra Pradesh	13	660	13042	13715	2824
2	Arunachal Pradesh	23	177	1785	1985	695
3	Assam	26	191	2199	2416	13472
4	Bihar	38	534	8386	8958	11857
5	Chhattisgarh	27	146	10978	11151	1804
6	Goa	2	n.a.	191	193	3827
7	Gujarat	33	248	14292	14573	2588
8	Haryana	21	126	6197	6344	2986
9	Himachal Pradesh	12	78	3226	3316	2100
10	Jammu & Kashmir	22	306	4482	4810	2259
11	Jharkhand	24	263	4370	4657	6255
12	Karnataka	30	176	6021	6227	6563
13	Kerala	14	152	941	1107	49385
14	Madhya Pradesh	51	313	22817	23181	2311

15	Maharashtra	34	351	27869	27869	2272
16	Manipur	6	-na-	161	167	14668
17	Meghalaya(d)	-na-	-na-	-na-	0	-na-
18	Mizoram(d)	-na-	-na-	-na-	0	-na-
19	Nagaland(d)	-na-	-na-	-na-	0	-na-
20	Odisha	30	314	6798	7142	5264
21	Punjab	22	147	13271	13440	1335
22	Rajasthan	33	295	9892	10220	5127
23	Sikkim	4	-na-	185	189	2672
24	Tamilnadu	31	385	12523	12939	3159
25	Telangana	9	438	13057	13504	1726
26	Tripura	8	35	591	634	7600
27	Uttar Pradesh	75	822	58791	59688	2847
28	Uttarakhand	13	95	7762	7870	927
29	West Bengal	22	342	3340	3704	22498
Union Territories						
1	Andaman & Nicobar	3	9	70	82	3784
2	Chandigarh	-na-	-na-	n.a.	0	-na-
3	Dadra & Nagar Haveli	1	n.a.	20	21	-na-
4	Daman & Diu	2	n.a.	15	17	-na-
5	NCT of Delhi(e)	n.a.	n.a.	n.a.	0	-na-
6	Lakshadweep	1	n.a.	10	11	-na-
7	Puducherry	n.a.	10	98	108	4470
	India	630	6613	253380	260623	3624

Source: Chapter 1 of this report

Notes: na-not available

1. VPs-Village Panchayats or Gram Panchayats in almost all States.

2. The nomenclature of intermediate rung differs from one State to another. It is known as Mandal Parishad in Andhra Pradesh, Anchal Samiti in Arunachal Pradesh, Anchalic Panchayat in Assam, Janpad Panchayat in Chhattisgarh and Madhya Pradesh, Taluka Panchayat in Gujarat, Taluk Panchayat in Karnataka, Panchayat Union in Tamilnadu, Kshetra Panchayat in Uttar Pradesh and Uttarakhand and Panchayat Samiti in many States i.e. Bihar, Haryana, Himachal Pradesh, Jharkhand, Maharashtra, Orissa, Punjab and Rajasthan.

3. It is also known as Zilla Panchayat/Parishad in many States.

d The State is outside the purview of Part IX of the Constitution under its Article 243 M.

e Panchayat has yet to be revived

Under the CAA, the state legislature is expected to devolve responsibilities, powers and authorities to the *Panchayats* to enable them to function as institutions of self-government. The legislature of a State may authorize the *Panchayats* to levy, collect and appropriate certain taxes, duties, tolls, fees, etc, and also assign to them the revenues of certain state level taxes subject to such conditions as are imposed by the state government. Further, grants-in-aid may also be provided to the *Panchayats*. Resulting from the CAA, the number of *Panchayats* in India stands at 2, 60,623 of which 2, 53,380 are village *Panchayats*, 6,613 are intermediate *Panchayats*, and 630 are district *Panchayats* (please see table 1).

The new fiscal arrangement necessitates every State under Article 243(I) to constitute, at regular interval of five years, a finance commission (SFC), and assign it the task of reviewing the financial position of *Panchayats* and making recommendations on the sharing and assignment of

various taxes, duties, tolls, fees etc and grants-in-aid to be given to the Panchayats bodies from the Consolidated Fund of a State. The conformity Act of the CAA provides for the composition of the commission, the qualifications for its members and the manner of their selection. Every recommendation of the commission together with an explanatory memorandum is to be laid before the legislature of the State.

Generally the functional responsibilities are closely linked with the financial powers delegated to the local government, in practice the huge mismatch between these two leads to a severe fiscal stress at the local level. The own revenues of local governments are good enough to meet only a part of their operations and maintenance requirement. Therefore they are dependent on the higher levels of governments to finance even their recurring expenditure. Towards this end, the devolution of resources from the Centre to States and the States to *Panchayats* was considered a necessary requirement and clause "*measures needed to augment the Consolidated Fund of a State to supplement the resources of the panchayats and municipalities*" was inserted in article 280 (3) of the Constitution on the recommendations of the Joint Parliamentary Committee headed by K P Singh Deo, which went into the Constitution (Seventy-third Amendment) Bill, 1991. Later, it was also inserted in the Seventy-second Amendment Bill. Para 4(iii) of the Presidential Order dated November 27, 2017 regarding the constitution of the 15th FC is the verbatim reproduction of the sub-clause 280(3) (bb & c).

Finances of the Local Governments

The shrinking fiscal space for the *Panchayats* can be noticed easily. Table 2 reveals that the total expenditure of *Panchayats* is far less than the revenue they generate. Many feel that this situation needs to be radically improved. It is argued that there is a need to have inclusive governance for inclusive growth, by restructuring the fiscal architecture to accommodate *Panchayats* in a more equitable and efficient manner. The hallmark of any self-government is the degree of financial autonomy it enjoys in formulating and implementing public policies in regard to those functional responsibilities assigned to it. The amendment to the sub-clause 280(3) is a firm affirmation of the organic link between the UFC and the State - sub-State public finances. The task of restructuring public finance substantially depends on streamlining the multiple channels of resource flow from the Centre to the rural local governments through the States.

Fiscal transfers in the form of shared revenue and grants are the mainstay of the *Panchayats*' finances even in progressive States. Revenue is shared from the divisible pool of the State following the recommendations of the respective SFC. However, wide variations are seen

across States in defining the divisible pool. A few SFCs form the divisible pool by including the share of central taxes with the State tax and non-tax revenues, e.g. the SFCs of Andhra Pradesh, Assam and Goa (Table 3).

Table 2: Resource Gap for Panchayats (Average of 2012-13 to 2017-18)

(Rs. in crore)					
Sl. No.	State	Expenditure by Panchayats	Own Resources of Panchayats	Resource Gap	Share of Own Revenue in Total Expenditure
<i>General Category States</i>					
1	Andhra Pradesh	5976.9	406.0	5570.9	6.8
2	Bihar	0.0	0.0	0.0	0.0
3	Chhattisgarh	7477.0	47.5	7429.5	0.6
4	Gujarat	16438.2	1089.6	15348.5	6.6
5	Goa	134.4	0.0	134.4	0.0
6	Haryana	1533.2	246.8	1286.4	16.1
7	Jharkhand	769.5	42.4	727.1	5.5
8	Kerala	6736	588.6	6147.4	8.7
9	Karnataka	26266.7	454.2	25812.6	1.7
10	Madhya Pradesh	0.0	0.0	0.0	0.0
11	Maharashtra	36595.8	7546.1	29049.7	20.6
12	Odisha	3912.8	29.2	3883.5	0.7
13	Punjab	604.1	409.4	194.7	67.8
14	Rajasthan	0.0	0.0	0.0	0.0
15	Tamil Nadu	5116.6	827.6	4289.0	16.2
16	Telangana	0.0	0.0	0.0	0.0
17	Uttar Pradesh	5166.3	1239.3	3927.0	24.0
18	West Bengal	13496.6	632.7	12863.9	4.7
<i>North Eastern/Hill States</i>					
19	Arunachal Pradesh	0.0	0.0	0.0	0.0
20	Assam	3045.7	46.2	2999.5	1.5
21	Himachal Pradesh	118.8	11.7	107.1	9.8
22	Jammu & Kashmir	80.1	1.7	78.4	2.1
23	Manipur	39.2	0.0	39.2	0.0
24	Meghalaya	97.3	0.0	97.3	0.0
25	Mizoram	11.8	0.1	11.7	0.8
26	Nagaland	7.0	0.0	7.0	0.0
27	Sikkim	137.4	1.1	136.3	0.8
28	Tripura	123.2	6.9	116.3	5.6
29	Uttarakhand	445.1	142.2	303.0	31.9
Total		134329.8	13769.2	120560.6	10.3

Source: Chapter 1 of this report.

In other words, some of the States, despite the constraints on their resources, do reduce the fiscal imbalance of the local governments, though partly, through a share in Union taxes. It can be observed that the fiscal capacity of the local governments in general, is not very strong. Property tax, advertisement tax, profession tax, taxes on vehicles and animals, theatre tax, user

charges on services, rental income from properties, developmental charges, fees and fines, and the like contribute the maximum to the kitty of the local governments' own-source revenue.

It may be argued that States could reduce the vertical fiscal imbalance by assigning a few buoyant revenues to *Panchayats*. But, the limited financial space open to the States and the perceived low organizational and administrative capacity of *Panchayats* has prevented the States from exercising this option. The dependence on fiscal transfers, particularly conditional and purpose specific ones is reducing the autonomy of the *Panchayats* to allocate resources according to their own priorities. It is critical to enable and empower the local governments to enhance their capacity. In order to make this happen, a mechanism of untied transfer of funds to the local governments is essential for enhancing their fiscal capacity and functional autonomy.

It is argued that the resources could also be transferred to the *Panchayats* from other channels but they are tied and hardly assist in building the fiscal capacity of the *Panchayats*. Hence, responsibility lies with the 15th FC to devolve adequate funds for this purpose to *Panchayats* under Article 280(3) (bb). Significant tied funds are being transferred to *Panchayats* through the centrally sponsored schemes (CSSs). For long, the CSS transfers were administered and utilized mainly by the line departments. In recent years, the local governments are being increasingly recognised as implementing institutions for the vertical schemes of line ministries.

Table 3: SFC Recommendations for share in State Resources

State Finance Commission	% of divisible pool	Share % of <i>Panchayats</i> and Municipalities	Basis of Distribution
Total Revenue of State			
Andhra Pradesh (I)	39.24	70 and 30	Development criteria
Arunachal Pradesh(I)	50.00	Not Mentioned	Population, Geographical area, own income efforts, distance from highest per capita income and composite index of backwardness.
Assam(I)	2.0	Not Mentioned	Population.
Goa (I)	36.0	75 and 25	Population, Geographical area, Performance
Own Revenue of States			
Andhra Pradesh(II)*	10.39*	65 and 35	Development Criteria
J & K (I)	13.5	67 and 33	Not Mentioned.
Kerala (I)	1.0	Not Mentioned	Population.
Karnataka (III)	30.0	70 and 30	Not Mentioned
Madhya Pradesh(I)	11.57	25.13 and 74.87	Population, area, tax efforts.
Odisha (II)	10.0	80 and 20	Population, density, number of holdings, revenue efforts
Sikkim(I)	1.0	100 and 0	ULB does not exist in the state.
Sikkim (III)	2.0	Not Mentioned	Population, area of <i>Panchayats</i>
Sikkim (IV)	2.5	75 and 25	Population Census2011

Uttarakhand(II)	10.0	60 and 40	Population, area, deprivation index, remoteness index, tax efforts.
Uttar Pradesh (I)	10.0	30 and 70	Population (80%); Area (20%).
Uttar Pradesh (II)	12.5	40 and 60	Population and area.
Uttar Pradesh (IV)	15.0	N.A.	Population , SC/ST Population, area, Per Capita Index, Establishment comfort backwardness Index, integrated development backwardness Index,
Non- Loan gross own revenue			
Karnataka (I)	36.0	85 and 15	For panchayats, population, area, index of decentralization and for ULBs population 67% and illiteracy rate 33%[kar II has followed it]
Karnataka (II)	40.0	80 and 20	
State Own Taxes			
Assam(II)	3.5	Based on 1991 census	Population, area, Net District Domestic product
Assam (IV)	15.0	Based on 2001 census	Population, area, Infrastructure Index
Bihar	7.5		
Chattisgarh(I)	4.79	Not Mentioned	Population
Goa(II)	2.0	Not Mentioned	Not Mentioned
Haryana(III)	4.0	65 and 35	Population , SC Population,
Haryana (IV)	2.5	65 and 35	Population Census 2011
Kerala (II)	9.0	78.5 and 21.5	Population
Kerala (III)	25.0#	Not Mentioned	Not Mentioned
Kerala (IV)	19.7	Population	Population, area, deprivation index, tax efforts
Madhya Pradesh (II)	4.0	77.33 and 26.67	Population
Maharashtra (II)	40.0	80 and 20	Distance from Highest Per Capita Income District, Backwardness, Population, Area, Proportion of Agricultural Income in Total Income of the District, Inverse Primary Income.
Odisha(III)	15.0	75 and 25	Expected Population 25.8 % and 29.17 % respectively.
Odisha(IV)	3.0	75 and 25	N.A
Punjab(II)	4.0	67.50 and 32.50	Population, per capita, revenue, SCs
Punjab(III)	4.0	34 and 66	Population
Rajasthan(I)	2.18	77.33 and 22.7	Population
Rajasthan (II)	2.25	76.6 and 23.4	Population
Rajasthan(III)	3.5	75.7 and 24.3	Population
Rajasthan(IV)	5	75.1 and 29.9	Population
Rajasthan(V)@	7.9	75.1 and 29.9	Population
Tamil Nadu(I)S	8.0	60 and 40	Population
Tamil Nadu (II)	10.0	58 and 42	Population, SCs and STs, Per capita own revenue, area, asset maintenance, resource gap.
Tamil Nadu (III)	10.0	58 and 42	Population, resources, potential, needs
Tamil Nadu (IV)	10.0	56 and 44	Population SC/ST Population, Area
Tripura (I)	50.0	Not Mentioned	Population, Socio-economic backwardness
Tripura (II)	25.0	Not Mentioned	Population
Tripura (III)	20.0	Not Mentioned	Population
Uttarakhand(I)	11.0	42.23 and 57.77	Population and Distance from Rail Head

West Bengal (I)	16.0	Breakup as per population, district wise	Population and % of SC/ST, non literates
West Bengal(II)	16.0	Breakup as per population , district wise	Population 50 % and 7% to other variables, population density, SC/ST, non-literates, IMR, rural population per capita income
West Bengal (III)	2.0	Not Mentioned	Not Mentioned

Source: Updated from Alok (2014)

Notes: § In Tamil Nadu, the divisible pool called pool B consists of sales tax, motor vehicle tax, state excise revenue and other state taxes. The other pool A consists of levies, which rightly belong to local governments i.e. surcharge on stamp duties, local cess and local cess surcharge and entertainment tax. The entire proceeds of pool A taxes are recommended to be distributed to the local governments.

* Second SFC of Andhra Pradesh recommended 10.39% share as additional devolution over and above the existing annual devolution.

25 (Twenty five) per cent of the total State Tax revenue of the year 2003-04 may be transferred to Local Self Governments (LSGs) during the year 2006-07. During each of the four subsequent years amounts derived by applying annual growth of 10 (ten) percent (which would accommodate reasonable rates of inflation and real growth) may be so transferred.

@ It has excluded Entry tax and Land revenue

Recently, many vertical schemes have started assigning a range of responsibilities to Panchayats and depend upon them for grassroots implementation. In addition, there are several important flagship programmes of the central government, which aim at provisioning basic essential services across the country through the local governments. The allocations to the programmes, entailing the involvement of the local governments, have shown a substantial growth. It is a good augury that the institutional mechanisms tend to provide centrality to Panchayats in their planning and implementation. It is observed that today the physical and social infrastructure is growing gradually in rural areas of some States. Tomorrow, the emphasis will shift to the operation and maintenance of the assets created, the cost of which would have to be met largely through devolution and grants recommended by the UFC and SFCs. In addition, the Disaster Management Act, 2005 has also identified the role for Panchayats at the local level.

Approaches and Recommendations of Earlier Finance Commissions

So far, five UFCs have devolved grants for Panchayats and attempted to a) equalize basic civic services, b) provide incentives for strengthening accounts and audit and c) set rules to strengthen SFCs. The recommendations have been subject to considerable criticism mainly on the following grounds

- The grants provided are too small to make any difference to the functioning of about 2.5 lakh Panchayats.
- The formula used for the allocation among the States were needlessly complicated and proved to be ineffective in promoting the cause of decentralized governments.

- The contours of decentralization across the States have never been very clear and each UFC adopted an *ad hoc* approach that too of different varieties breaking the continuity.
- The UFCs attempted, though half-heartedly, to enhance the capacity of *Panchayats* in a supply-driven way. This supply-driven approach has not worked and is unlikely to make any impact in the near future when *Panchayats* themselves have no incentives to keep their own house in order and face the hard budget constraints.
- Relative shares of the States in the total grants allocation for *Panchayats* marked significant changes from the award period of one UFC to another. This shows the lack of seriousness on the part of UFCs.
- While addressing Article 280(3) bb of the Constitution, some UFCs considered only *Gram Panchayats* and left the other two rungs i.e. District and Block *Panchayats*. While the Constitution prescribes the three-tier *Panchayat* system, including District and Block, the recommendations seem inconsistent with the constitutional provision. This has weakened both District and Block *Panchayats* in many States.
- All UFCs except the 13th Finance Commission ignored good practices in other federal countries with similar systems and institutions.
- Many UFCs imposed conditionalities on *Panchayats* in the grants allocation and called them incentives. The intention was micro management. It failed as expected. Grants cannot be withheld if mandatory constitutional provisions are fulfilled. Grants could have been attached towards the fulfilment of Constitutional obligations imposed under the 73rd Amendment and strengthening the institutions such as SFCs, district and metropolitan planning committees and *Gram Sabha*.

Need to Reorient Fiscal Transfer Mechanism for *Panchayats*

The 15th FC has a major role to induce the institutions of governance that are closest to people. All States have completed the rounds of elections under the supervision of respective State election commission, an autonomous constitutional entity. Similarly, processes of fiscal devolution from the States to the *Panchayats* are taking place through SFCs. In many States, the report of the fifth generation SFC has been submitted. Assets are being either created or transferred to *Panchayats*. All of this imposes an administrative cost on the local governments and draws on scarce resources that they receive from their own sources and from the States. In this connection, fiscal transfers through the UFC have to play a critical role.

It is to be mentioned here that *ad hoc* grants of a token nature given by the earlier UFCs now need to be replaced by regular transfer arrangement. The role for the 15th FC is to act as the path breaker in creating an enabling environment for fiscal decentralization at the sub-State level. This could be done through strengthening state level intergovernmental institutions and fiscal capacity equalization, an essential condition for a controlled and gradual process of fiscal

decentralization (Bahl, 1999). This requires, at this stage, the support from the UFC as various subnational governments have different and inadequate capacities to create institutions and finance *Panchayats*. It is expected from the 15th FC to accept that fiscal decentralization is not a zero sum game. In this context, the following points are worthy of being noted:

- Autonomous SFCs, district planning committees, elected representatives in addition to the *sarpanch* and active *gram sabhas* are the key to decentralized democracy. At present, they are peripheral lacking in technical activities of true autonomy. They need to be strengthened.
- Reassessment of the provision of local public goods is necessary. A certain annual rise in the administrative cost is inherent with the increase of public employees' salaries particularly after the implementation of the recommendations of the Seventh Pay Commission. This will have an effect on the establishment cost of the local governments, including the salaries of their staff (in the accounts and a computer section). Necessary minimum staff needs to be appointed in all *Panchayats*.
- Due to increased activities, there would be an additional maintenance cost of office space, including storage, record rooms, computer centres and libraries.
- In order to impose a uniform system of financial accounts, audit rules, disclosure requirements under the Right to Information (RTI) Act, there would be a need for technical assistance to local governments in several areas such as computerisation, accounting, treasury, tax administration, data processing, project evaluation, audit at local fund and Comptroller and Auditor General (CAG) levels and transparent procurement procedures.
- Operation and maintenance costs will go up chiefly due to greater investment in the form of local infrastructure, particularly for drinking water supply, irrigation and communication for the poor.
- There would be additional recurring expenditure on traditional civic services like primary healthcare, drinking water, public lighting, roads and sanitation arising out of increased people's expectations.

Genesis and Rationale of Article 280 (3) (bb &c)

The genesis of the addition of clause (3) (bb & c) to Article 280 of the Constitution can be traced in the report of the Joint Committee of Parliament (1991) that felt

“ amendment should be made in article 280 relating to constitution of Central Finance Commission so that the said Commission should make recommendations to the President.....The need for this amendment has been (was) explained further in detail in chapter II of the Report”

Chapter II of the report made *inter alia* the following explanation,

“Availability of resources should be both commensurate and elastic keeping pace with their growing needs. Apart from augmenting internal sources, methods need to be devised for enlarging the area of assured

devolution and the quantum of assistance that will flow from the Centre to States and States to the Municipalities. The Centre -State fiscal relations are governed by constitutional provisions. Unfortunately there is no such constitutional mechanism at present which provides for a regular assessment of the fiscal resource gap that exists in municipalities on account of the increasing responsibilities thrust upon them and for putting the devolution of resources to urban local bodies on a rational and firmer footing."

It may also be recollected what the then Minister for Rural Development said while moving the Constitution (Seventy-second Amendment) Bill, 1991

"Constitution (Seventy-third) Amendment cast a duty on the centre as well as the states to establish and nourish the village panchayats so as to make them effective self-governing institutions.... We feel that unless the panchayats are provided with adequate financial strength, it will be impossible for them to grow in stature"

It is to be noted here that the provision regarding *"measures needed to augment the Consolidated Fund of a State"* is provided in Article 280 and not in Part IX and IX A of the Constitution. The fact that the Article 280 was amended to add clause (3) (bb& c) explains that just as the State government has the responsibility under Article 243 (I&Y) to devolve resources to *Panchayats*, the Union Government also has a corresponding role and responsibility. The clause was inserted to enable and provide a legal basis for the passthrough of central funds to the local governments, with which the Union has no direct relationship. The term *"measures needed to augment the Consolidated Fund of a State"* offers an extensive scope for intervention by the UFC. "Measures" obviously include legislative, administrative and financial ones and "financial measures" perceptibly mean a direct flow of resources from the Union to local governments through States.

The time has come for the UFC to desist from the approach of *ad hoc* nature and include the local governments in the arrangement of revenue sharing as the case with the State emanated from the 80th Amendment of the Constitution. Also, pertinent Constitutional provisions including Articles 243H, 243I, 243X, 243Y, 266, 268, 269, 270, 275, 279 and 280 do not, in any way, preclude the UFC from earmarking a share of central revenues for *Panchayats*, suggesting that it be given into the Consolidated Fund of a State for the express purpose of supplementing the *Panchayats* fund. Since nowhere it is stated that the transfer of funds to *Panchayats* should only be in the form of *ad hoc* grants, it is safe to suggest that local governments should also be considered to get the share from the Union divisible pool along with the States. This would be over and above the fiscal devolution recommended to the States to correct the vertical imbalance. Seemingly, the scheme has the following merits:

- This will help a great deal in linking the local governments with the Indian federal structure along with the State and central governments.
- The local governments will be able to share the aggregate buoyancy of central taxes. This is particularly important when the economy grows and passes through an inflationary phase.
- The Union, State and local governments would feel the impact of fluctuations in central tax revenues alike.
- The progress of tax reforms will be greatly facilitated if the scope of tax sharing arrangement is enlarged so as to give greater certainty of resource flows to local governments and increased flexibility in tax reform and tax reengineering e.g. Goods and Services Tax (GST).

The central grants for *Panchayats* should be adequate, but not excessive at the same time leaving room for additional State grants to *Panchayats* with proper consideration to cost disabilities. The adequacy aspect of grants should be considered within a triangular sharing of central revenues. The 13th FC had made this possible after rounds of consultations with legal experts and calculated the grants as percentage from the divisible pool of the previous year. The 14th FC dropped the idea and termed it unconstitutional without giving any argument against the practice set by the 13th FC. Whereas, the 13th FC provided convincing arguments and made a case in favour of 'Local Governments' share in the Union Divisible Pool. The 15th FC could consider this to decide the appropriate level of central grant allocation to the local governments.

Practices in Other Federations

It may be argued that the scheme needs to be consistent with the practice adopted in other federations of the world. In this context, salient features of select practices in other federations are given below:

- In Australia, the state governments are required to establish the State Grants Commission (SGC) for distributing the tax sharing grants among the local governments. The federal government requires that the fund be distributed among local governments through SGC in three parts i.e. 20% on a per capita basis; 30% on a relative needs basis; and 50% on a fiscal equalization basis. The SGC of India is similar to the SGC of Australia and can be strengthened by the 15th FC through this mechanism.
- In Brazil, federal taxes on production and income contribute substantially in a Municipalities Participation Fund which is divided among local governments. Municipalities get their share from the royalties of the minerals excavated in their jurisdictions.
- In Argentina, central revenue is shared with the States and local governments (through state government) under the National Tax Sharing Law. Though no

criteria or percentages are mentioned at the federal level, it says that States must share part of the central shared taxes with their local governments.

- In Germany, tax sharing is provided in the Basic Law. The Constitution provides that a share of the revenue from income tax be passed on to the local governments by the States.
- In Canada, local government financing is at the discretion of the provinces and territories. However, they receive specific purpose and general purpose transfers from federal governments through provinces.
- In South Africa, local governments are entitled to an 'equitable share' of national revenue in terms of Section 214 of their Constitution. Though the Constitution does not distinguish between local governments in urban and rural areas, the national government has developed a very elaborate system to classify local governments into seven categories using variables such as poverty levels, fiscal needs, fiscal capacity, cost of governance, and access to basic services. Through this mechanism, rural local governments receive large funds from federal government than the urban municipalities.

It is evident from the above practices that central revenue is shared with local governments in almost all federations and grants are also treated as an instrument to strengthen intergovernmental institution e.g. SFC. The contribution of the municipality's jurisdiction in value addition under the Goods and Services Tax is also counted while making IGFT arrangements. In addition, municipalities get their share from the royalties of the minerals excavated in their jurisdictions.

Other Instruments

No doubt the task which the 15th FC is enjoined under the Terms of Reference to make an assessment of the revenue gap of the *Panchayats* separately, over and above the gap of the State Government, is Herculean given the time and resources at its disposal. That apart, given the acute resource constraint at all levels of government, some form of top down budgeting cannot possibly be avoided. Hence, some idea of the overall amount that can be devolved from the Centre is essential. In this connection, the 15th FC could decide the appropriate level of central grant allocation to the *Panchayats* with a view to increase the size of Panchayat expenditure as a proportion of total government expenditure.

In the medium term, the 15th FC could bring the revenue expenditure of the local governments to the level of at least 10 percent of total public expenditure. At present, the *Panchayats* public expenditure in Maharashtra as proportion of total State expenditure is the highest. This is followed by Karnataka and Kerala (*Alok, 2014*). However, the pattern is different across States. District *Panchayats* are strong in Maharashtra whereas village *Panchayats* are big and

strong in Kerala. In the long run, the share of expenditure of the local governments in total public expenditure should be raised to about 20 percent which is the international norm of developing countries.

The identification of basic civic services that could be considered on a priority basis could be the consideration of the 15th FC. The desired objective would be to ensure access to basic civic services for all citizens of India through central grants and topping it with State grants. In this connection, the practice of South Africa could be considered, by which the national government undertakes to fund a very high proportion of the basic civic services to the citizens particularly poor on condition that the local governments should keep it to the extent possible. It would be difficult for the 15th FC to devolve a very large proportion of grants for the basic services e.g. sanitation, drinking water, primary health, rural roads, etc. but a small beginning can be made. It is to be emphasized at this point that these civic services are absolutely basic to the nation as a whole. One can call them universal basic services similar to the idea of universal basic income.

The complications involved in the implementation strategy are known in view of the heterogeneity and varying capabilities of the subnational governments. But the basic rule could be to protect simplicity by limiting the number of objectives to be accomplished by each policy instrument. Since, the fiscal transfer from the UFC is ordained through State governments; the 15th FC could suggest the SFC to make *inter se* distribution among *Panchayats* and Municipalities within the State on these lines. It is expected that the States will adopt uniform accounting systems to follow accepted principles, prescriptions for audit procedures, etc. In this, the role of the SFC is crucial.

The 15th FC could reiterate and recommend a 'permanent SFC cell' with a budgetary provision in each State, probably located in the Department of Finance of the State with adequate staff to continuously monitor local government finances including development fund transfers from the line ministries. The unit could also develop an extensive data system in consultation with the State statistical unit so as to facilitate effective monitoring and evaluation.

It is believed that political masters at higher levels in States seem to be reluctant to devolve powers to *Panchayats*, but the minimum set of functions, finances and functionaries may be laid down which should be devolved to *Panchayats*. Since the capacity of *Panchayats* across States is different, any compulsion in this regard may not be appropriate. But, one thing can easily be attached to grants Article 275 which would be meant for *Panchayats*. It is the fulfillment

of obligations under Part IX of the Constitution such as the establishment of an SFC in time, placing its report in the State Assembly with an action taken report within six months. The 15th FC could incentivize States to create an enabling environment for *Panchayats* to function under an accountability framework. There cannot be any criticism for creating the incentive framework and imposing conditionalities to Article 275 grants so long as they flow from the Constitution. In any case, the distribution formula must give appropriate weight to progress made in regard to functional, financial and administrative devolution by States. Such devolution by States are quantified and compared in devolution index that has been the basis for the Award by the Prime Minister to high ranked States every year on *Panchayat Day*. Dimensions and indicators of the index are given in chapter IV. The States have started comparing themselves on the basis of the indicators set under the index.

RESTRICTED CIRCULAR

CHAPTER 1

Introduction

1.1 Background

Under the framework of cooperative federalism, a trend has been noted in many developing countries in the last three decades towards increasing decentralization of the public sector. The period has witnessed a significant rise in local democracy with growing realization that devolution of political, administrative and fiscal authority to local units of the government is one of the best ways to deepen democracy and increase efficiency. It was also felt that responsibilities for expenditure should be devolved with concomitant revenue to maintain fiscal accountability (Bird, 1993). Seemingly, this shift along with privatization and deregulation has reduced the authority of national governments over economic policies.

India is also keeping pace with this trend. New systems of local and intergovernmental finance are being established as part of the evolution. The trend has been noted, particularly since the early nineties, with the passage of the 73rd Constitution Amendment Act (CAA) that accelerated the process of decentralization with greater devolution and delegation of powers to rural local governments and the recognition of *Panchayats* in the statute book as institutions of self-government.

Consequently, Part IX has been inserted in the Constitution for *Panchayats* and the State legislature made responsible to assign responsibilities to *Panchayats* in matters listed in the newly created Eleventh Schedule. The State is also required to transfer interrelated powers to enable *Panchayats* to carry out the responsibilities conferred upon them. Under the CAA, the state legislature is authorized to devolve specific responsibilities, powers and authorities to rural local governments to enable them to function as institutions of self-government. The legislature of a State may empower *Panchayats* to levy, collect and appropriate certain state level taxes, duties, tolls, fees, etc., and also assign to them the revenues of certain state level taxes subject to such conditions as may be imposed by the State government. Further, grants-in-aid may also be provided to these *Panchayats*. Resulting from the CAA, the numbers of *Panchayats* as on 1st April 2019 stood at 2,60,623 of which 2,53,380 are Village *Panchayats*, 6,613 are Intermediate/Block *Panchayats* and 630 are District *Panchayats* (Please see Table 1.1).

Table 1.1: Numbers of Panchayats in each State/UT as on 1st April 2019

Sl. No.	State/UT	Levels of Panchayats (Numbers)				Rural Population per VP
		District ³	Block ²	Village ¹	Total	
1	Andhra Pradesh	13	660	13042	13715	2824
2	Arunachal Pradesh	23	177	1785	1985	695
3	Assam	26	191	2199	2416	13472
4	Bihar	38	534	8386	8958	11857
5	Chhattisgarh	27	146	10978	11151	1804
6	Goa	2	n.a.	191	193	3827
7	Gujarat	33	248	14292	14573	2588
8	Haryana	21	126	6197	6344	2986
9	Himachal Pradesh	12	78	3226	3316	2100
10	Jammu & Kashmir	22	306	4482	4810	2259
11	Jharkhand	24	263	4370	4657	6255
12	Karnataka	30	176	6021	6227	6563
13	Kerala	14	152	941	1107	49385
14	Madhya Pradesh	51	313	22817	23181	2311
15	Maharashtra	34	351	27869	27869	2272
16	Manipur	6	-na-	161	167	14668
17	Meghalaya(d)	-na-	-na-	-na-	0	-na-
18	Mizoram(d)	-na-	-na-	-na-	0	-na-
19	Nagaland(d)	-na-	-na-	-na-	0	-na-
20	Odisha	30	314	6798	7142	5264
21	Punjab	22	147	13271	13440	1335
22	Rajasthan	33	295	9892	10220	5127
23	Sikkim	4	-na-	185	189	2672
24	Tamilnadu	31	385	12523	12939	3159
25	Telangana	9	438	13057	13504	1726
26	Tripura	8	35	591	634	7600
27	Uttar Pradesh	75	822	58791	59688	2847
28	Uttarakhand	13	95	7762	7870	927
29	West Bengal	22	342	3340	3704	22498
Union Territories						
1	Andaman & Nicobar	3	9	70	82	3784
2	Chandigarh	-na-	-na-	n.a.	0	-na-
3	Dadra & Nagar Haveli	1	n.a.	20	21	-na-
4	Daman & Diu	2	n.a.	15	17	-na-
5	NCT of Delhi(e)	n.a.	n.a.	n.a.	0	-na-
6	Lakshadweep	1	n.a.	10	11	-na-
7	Puducherry	n.a.	10	98	108	4470
	India	630	6613	253380	260623	3624

Source: <https://lgdirectory.gov.in>, NRDWP-MoDWRS for population data

Notes: na-not available

1. VPs-Village Panchayats or Gram Panchayats in almost all States.

2. The nomenclature of intermediate rung differs from one State to another. It is known as Mandal Parishad in Andhra Pradesh, Anchal Samiti in Arunachal Pradesh, Anchalic Panchayat in Assam, Janpad Panchayat in Chhattisgarh and Madhya Pradesh, Taluka Panchayat in Gujarat, Taluk Panchayat in Karnataka, Panchayat Union in Tamilnadu, Kshetra Panchayat in Uttar Pradesh and Uttarakhand and Panchayat Samiti in many States i.e. Bihar, Haryana, Himachal Pradesh, Jharkhand, Maharashtra, Orissa, Punjab and Rajasthan.

3. It is also known as Zilla Panchayat/Parishad in many States.

d The State is outside the purview of Part IX of the Constitution under its Article 243 M.

e Panchayat has yet to be revived

Fiscal arrangements necessitate every State under Articles 243 I and 243Y to constitute, at regular interval of five years, a State Finance Commission (SFC), and assign it the task of reviewing the financial position of local governments and making recommendations on the sharing and assigning of various taxes, duties, tolls, fees, etc, and grants-in-aid to be given to the local governments from the Consolidated Fund of the State. The conformity Acts of the CAA provide for the composition of the commission, the qualifications for its members and the manner of their selection. Every recommendation of the commission together with an explanatory memorandum is to be laid before the legislature of the State.

It is about two and a half decades since Part IX was incorporated into the Constitution. During the period, one could have found enough reasons to cheer. Conformity Acts have been enacted in all the States. Elections have been conducted in all. Women have been elected as *Sarpanchs* for rural local governments. All States have constituted their SFCs. Most States have received their fifth generation SFC recommendations. Notwithstanding this, *Panchayats* in almost all States continue to be starved of finances causing major impediment in their growth and effective functioning. The problem is compounded when it is seen with the expanded role and responsibilities after the CAA became effective and the 11th Schedule was inserted. Ideally, the functional responsibilities should closely be linked with the financial powers delegated to local governments. In practice, a huge mismatch exists between these two situations leading to a severe fiscal stress at the local level. The own revenues of *Panchayats* are adequate to meet only a part of their operation and maintenance (O&M) requirements. Therefore, they are dependent on the higher level of governments to finance their activities. The SFCs are responsible for examining not only the revenue-sharing arrangements between the State governments and the local governments but also the entire range of subjects concerning the assignment of taxes, transfers of powers and such other subjects for improving the financial health of local governments. In this case, the CAA does not draw any distinction between the plan and non-plan or capital and revenue financial requirements of the local governments. Therefore, SFCs are not confined only to the assessment of revenue expenditure of the local governments for recommending the devolution of funds and financial powers to *Panchayats* at various rungs.

So that the SFC does not deter the state legislature from transferring responsibilities and revenue to *Panchayats*, the CAA provided that the Union Finance Commission (UFC) should suggest measures to augment the State Consolidated Fund in the light of the recommendations of SFCs. So far, five UFCs have made their recommendations. All the UFCs were severely constrained for reasons emanating partly from the practice and partly from the design of the new

fiscal arrangement. In fact, all UFCs recommended *ad hoc* grants without following a homogeneous approach suggesting that the 15th Finance Commission (15th FC) to consider the matter afresh.

1.2 Objectives

Against this backdrop, the study attempts to review the design of Intergovernmental Fiscal Transfers (IGFT) to local governments in India and other federations with the following objectives:

- a) To analyze the criteria adopted by finance commissions to devolve funds to rural local governments (*Panchayats*);
- b) To identify objective, replicable and commonly available quantitative indicators reflecting the resources needs of *Panchayats* of different States; and
- c) To learn from the experiences of other federal countries on the approach towards devolving funds to local governments.

1.3 The Method

- i. Data for the study was collected from the available secondary sources viz., UFCs reports, various reports on *Panchayats* by the Ministry of Panchayati Raj, 71 SFCs reports of various States, their action taken reports (ATRs), Committee reports, etc.
- ii. Data for selected federal countries was collected from their respective websites of institutions designated for IGFT arrangements viz CGC and FFC.
- iii. Apart from above literature, reports and research papers available at websites and IIPA library have been studied for own analysis.

1.4 Functional and Financial Devolution

India is a federal parliamentary democracy. *Panchayats* are seen as the 'third tier' of government. This has also made India the most representative democracy in the world. Today about 2.2 million representatives stand elected to the three rungs of *Panchayats*. Of these, more than 40 per cent are women and 27 per cent belong to marginalized sections – SCs and STs.

Article 243G of the Constitution empowers *Panchayats* to function as institutions of self-government for the purposes of a) preparing plans for economic development and social justice for their respective areas and b) implementing schemes for economic development and social justice in their respective areas for various subjects, including those twenty-nine matters listed in the Eleventh Schedule. However, the list is merely illustrative and indicative. Unlike the division of powers and functions, as spelled out in the Union and State Lists in the Constitution, no such

clear demarcation exists between the State and *Panchayats*. It is for the State legislature to make laws regarding the devolution of powers and functions to *Panchayats*.

Though almost all States and Union Territories (UTs) have claimed that they have transferred subjects in varying degrees to *Panchayats*, by enacting laws in conformity with the CAA, the functional domain of *Panchayats* pertains to only traditional civic functions in several States. The functional domain is without adequate developmental responsibilities in those States where either the Intermediate *Panchayats* or the District *Panchayats* were absent for decades. States, where they existed for long, have only repeated the provisions of the old statutes in their new laws with marginal adjustments. Moreover, many State Governments have not framed the relevant rules or guidelines as a follow up measure. A few States realized that transfer of additional functions would accompany the concomitant funds and functionaries to local governments, enabling them to perform the specified responsibilities. At the same time, the local governments are also not very clear about the role they are expected to play in the new federal set-up. The fact of the matter is that almost all the subjects enumerated in the Eleventh Schedule are State-concurrent, involving duplication and overlapping.

Another challenge before State Governments has been the identification of activities to the appropriate tier of the three-tier *Panchayat* system. Traditionally, the lowest level *Panchayat*, i.e. the Village *Panchayat* (VP) has been the most active in almost all States. Generally, the VPs carry out major functions including core functions whereas Intermediate and District *Panchayats* in most States are assigned supervisory functions or act mainly as executing agents for the State Government.

Exhibit 1.1

Classification of Functions Listed in Eleventh Schedule

Core Functions

- Drinking Water.
- Roads, culverts, bridges, ferries, waterways and other means of communication.
- Rural electrification, including distribution of electricity.
- Health and sanitation, including hospitals, primary health centres and dispensaries.
- Maintenance of community assets.

Welfare Functions

- Rural housing.
- Non-conventional energy sources
- Poverty alleviation programme.
- Education, including primary and secondary schools.
- Technical training and vocational education.
- Adult and non-formal education.
- Libraries.
- Cultural activities.
- Family welfare.
- Women and child development.
- Social welfare, including welfare of the handicapped and mentally retarded.
- Welfare of the weaker sections, and in particular, of the Scheduled Caste and the Scheduled Tribes
- Public distribution system

Agriculture and Allied

- Agriculture, including agricultural extension
- Land improvement, implementation of land reforms, land consolidation and soil conservation.
- Minor irrigation, water management and watershed development.
- Animal husbandry, dairying and poultry.
- Fisheries.
- Social forestry and farm forestry.
- Minor forest produce.
- Fuel and fodder.
- Markets and fairs.

Industries

- Small scale industries, including food processing industries
- Khadi, village and cottage industries

Note: *The Eleventh Finance Commission has given the above classifications to the functions enumerated in the 11th Schedule.*

It is a general perception that *Panchayats* are financially and technically underequipped to perform even the core functions, not to speak of welfare functions and other economic functions related to agriculture and industries (*see exhibit 1.1 above*). Hence, many of the core functions, which traditionally belonged to local governments like drinking water, rural roads, street lighting, sanitation and primary health have not been transferred fully in some States and are being performed by the line departments of State Governments or the parallel parastatals.

1.5 Expenditure and Revenue of *Panchayats*

The power of *Panchayats* to impose taxes was considered imperative and was enshrined in the Constitution under Article 243H. It was meant to impart certainty, continuity, and strengths to *Panchayats*. The Union Minister of State for Rural Development, while moving the Constitution (73rd Amendment) Bill in Parliament, argued that "unless the *Panchayats* are provided with adequate financial strength, it will be impossible for them to grow in stature". Devolution of taxes of *Panchayats* can easily be linked with the activities assigned to them, which vary from State to State. From the long list of the 11th Schedule, certain basic functions could be said to be in the exclusive domain of *Panchayats*. Even these essential services require huge funds. (Alok, 2006)

A variety of taxes have been devolved to different rungs of *Panchayats* (please see Annex I: State wise assignment of revenue handles to *Panchayats* at each rung). The relative importance of these taxes varies from State to State. The intermediate/block and district *Panchayats* are endowed with powers to collect a very few taxes whereas village *Panchayats* are given substantial taxing powers. In a number of cases, under the tax rental arrangement, the Village *Panchayats* collect taxes and pass them on to the higher level of *Panchayats*. Property tax, cess on land revenue, surcharge on additional stamp duty, tolls, tax on professions, tax on advertisements, non-motor vehicle tax, user charges, and the like contribute the maximum to the small kitty of own source revenue (hereafter called OSR). It contributes only 6 to 7 per cent of the total expenditure of *Panchayats*. In most States, the property tax generates the maximum revenue. However, this tax remains inelastic because of inefficient administration in its collection. Its assessment is based on the annual rental value of taxation and its associated evil: under declaration of rentals. However, some progressive States have reformed the tax structure and use the unit area method in determining the tax base.

After OSR assigned revenues are the most efficient in the dispensation to *Panchayats*. Such revenues are levied and collected by the State Government and are passed on to *Panchayats* for their use. Some States deduct collection charges. The practices in assigning revenues are marked by large interstate variation. However, typical examples of assigned revenues are the surcharge on stamp duty, cess or additional tax on land revenue, tax on profession, and entertainment tax. In many States, these taxes form part of the OSR of *Panchayats*. (Alok, 2006)

Table 1.2 shows State wise expenditure through *Panchayats*. Large variations with per capita expenditure across States can easily be noticed.

Table 1.2: Expenditure by *Panchayats* (Average of 2012-13 to 2017-18)

(Rs in crore)

Sl. No.	State	Expenditure by <i>Panchayats</i>				Rural Population 01/04/2018 (in number)	Per-capita Expenditure
		District	Block	Village	Total		
<i>General Category States</i>							
1	Andhra Pradesh	300.8	5210.7	465.4	5976.9	36829377	1622.9
2	Bihar	0.0	0.0	0.0	0.0	99432883	0.0
3	Chhattisgarh	5256.2	1433.5	787.4	7477.0	19799214	3776.4
4	Gujarat	6532.3	8601.1	1304.7	16438.2	36989065	4444.1
5	Goa	0.0	0.0	134.4	134.4	730923	1839.3
6	Haryana	62.2	72.6	1398.4	1533.2	18506102	828.5
7	Jharkhand	234.6	151.8	383.1	769.5	27332753	281.5
8	Kerala	701.6	1345.5	4688.9	6736.0	46471011	1449.5
9	Karnataka	9238.3	11864.2	5164.2	26266.7	39514500	6647.4
10	Madhya Pradesh	0.0	0.0	0.0	0.0	52719953	0.0
11	Maharashtra	32550.0	272.7	3773.1	36595.8	63317990	5779.7
12	Odisha	283.8	819.3	2809.7	3912.8	35787108	1093.3
13	Punjab	21.3	114.5	468.3	604.1	17715979	341.0
14	Rajasthan	0.0	0.0	0.0	0.0	50719050	0.0
15	Tamil Nadu	232.8	1384.2	3499.6	5116.6	39555747	1293.5
16	Telangana	0.0	0.0	0.0	0.0	22535548	0.0
17	Uttar Pradesh	1096.5	379.1	3690.6	5166.3	167351926	308.7
18	West Bengal	2225.7	3688.2	7582.8	13496.6	75141830	1796.2
<i>North Eastern/Hill States</i>							
19	Arunachal Pradesh	0.0	0.0	0.0	0.0	1241248	0.0
20	Assam	808.3	360.1	1877.4	3045.7	29625377	1028.1
21	Himachal Pradesh	19.0	43.2	56.7	118.8	6773988	175.4
22	Jammu & Kashmir	0.0	0.0	80.1	80.1	10126287	79.1
23	Manipur	3.5	0.0	35.7	39.2	2361566	166.0
24	Meghalaya	97.3	0.0	0.0	97.3	2603058	373.9
25	Mizoram	0.0	0.0	11.8	11.8	519102	226.6
26	Nagaland	0.0	0.0	7.0	7.0	1674492	42.0
27	Sikkim	11.5	0.0	125.9	137.4	494231	2780.0
28	Tripura	29.6	23.5	70.0	123.2	4491866	274.2
29	Uttarakhand	142.0	55.3	247.8	445.1	7193225	618.8
Total		59847.4	35819.5	38662.9	134329.8	-	-

Source: Office of the 15th FC & MoDWS-GoI for population data

Table 1.3 shows average revenue collection by *Panchayats* in different States during 2012-13 to 2017-18.

Table 1.3: Revenue of *Panchayats* (Average of 2012-13 to 2017-18)

(Rs. in crore)

Sl. No.	State	Revenue collection by <i>Panchayats</i>				Rural Population 01/04/2018 (in number)	Per-capita Revenue
		District	Block	Village	Total		
<i>General Category States</i>							
1	Andhra Pradesh	61.7	18.3	326.0	406.0	36829377	110.3
2	Bihar	0.0	0.0	0.0	0.0	99432883	0.0
3	Chhattisgarh	0.1	2.9	44.5	47.5	19799214	24.0
4	Gujarat	709.1	68.0	312.6	1089.6	36989065	294.6
5	Goa	0.0	0.0	0.0	0.0	730923	0.0
6	Haryana	0.0	0.0	246.8	246.8	18506102	133.3
7	Jharkhand	28.8	4.9	8.8	42.4	27332753	15.5
8	Kerala	181.5	16.2	390.8	588.6	46471011	126.7
9	Karnataka	0.0	0.0	454.2	454.2	39514500	114.9
10	Madhya Pradesh	0.0	0.0	0.0	0.0	52719953	0.0
11	Maharashtra	6192.1	148.1	1205.9	7546.1	63317990	1191.8
12	Odisha	0.0	0.0	29.2	29.2	35787108	8.2
13	Punjab	30.6	72.4	306.4	409.4	17715979	231.1
14	Rajasthan	0.0	0.0	0.0	0.0	50719050	0.0
15	Tamil Nadu	1.1	183.8	642.7	827.6	39555747	209.2
16	Telangana	0.0	0.0	0.0	0.0	22535548	0.0
17	Uttar Pradesh	1226.9	0.0	12.4	1239.3	167351926	74.1
18	West Bengal	400.6	54.1	178.1	632.7	75141830	84.2
<i>North Eastern/Hill States</i>							
19	Arunachal Pradesh	0.0	0.0	0.0	0.0	1241248	0.0
20	Assam	41.3	1.7	3.2	46.2	29625377	15.6
21	Himachal Pradesh	3.3	0.4	8.0	11.7	6773988	17.2
22	Jammu & Kashmir	0.0	0.0	1.7	1.7	10126287	1.7
23	Manipur	0.0	0.0	0.0	0.0	2361566	0.1
24	Meghalaya	0.0	0.0	0.0	0.0	2603058	0.0
25	Mizoram	0.0	0.0	0.1	0.1	519102	1.4
26	Nagaland	0.0	0.0	0.0	0.0	1674492	0.0
27	Sikkim	0.0	0.0	1.1	1.1	494231	21.3
28	Tripura	4.1	1.0	1.7	6.9	4491866	15.3
29	Uttarakhand	139.0	0.0	3.1	142.2	7193225	197.6
Total		9020.1	571.8	4177.3	13769.2		

Source: Office of the 15th FC & MoDWS- GoI for population data

These two Tables (1.2 and 1.3) have been prepared based on the data provided by the office of the 15th FC. Though the resource gap on the basis of these two Tables has been calculated in Table 1.4, it is difficult for us to rely on the data when we compare it with similar data collected from other sources in the past and present.

Table 1.4: Resource Gap for *Panchayats* (Average of 2012-13 to 2017-18)

(Rs. in crore)

Sl. No.	State	Expenditure by <i>Panchayats</i>	Own Resources of <i>Panchayats</i>	Resource Gap	Share of Own Revenue in Total Expenditure
<i>General Category States</i>					
1	Andhra Pradesh	5976.9	406.0	5570.9	6.8
2	Bihar	0.0	0.0	0.0	0.0
3	Chhattisgarh	7477.0	47.5	7429.5	0.6
4	Gujarat	16438.2	1089.6	15348.5	6.6
5	Goa	134.4	0.0	134.4	0.0
6	Haryana	1533.2	246.8	1286.4	16.1
7	Jharkhand	769.5	42.4	727.1	5.5
8	Kerala	6736	588.6	6147.4	8.7
9	Karnataka	26266.7	454.2	25812.6	1.7
10	Madhya Pradesh	0.0	0.0	0.0	0.0
11	Maharashtra	36595.8	7546.1	29049.7	20.6
12	Odisha	3912.8	29.2	3883.5	0.7
13	Punjab	604.1	409.4	194.7	67.8
14	Rajasthan	0.0	0.0	0.0	0.0
15	Tamil Nadu	5116.6	827.6	4289.0	16.2
16	Telangana	0.0	0.0	0.0	0.0
17	Uttar Pradesh	5166.3	1239.3	3927.0	24.0
18	West Bengal	13496.6	632.7	12863.9	4.7
<i>North Eastern/Hill States</i>					
19	Arunachal Pradesh	0.0	0.0	0.0	0.0
20	Assam	3045.7	46.2	2999.5	1.5
21	Himachal Pradesh	118.8	11.7	107.1	9.8
22	Jammu & Kashmir	80.1	1.7	78.4	2.1
23	Manipur	39.2	0.0	39.2	0.0
24	Meghalaya	97.3	0.0	97.3	0.0
25	Mizoram	11.8	0.1	11.7	0.8
26	Nagaland	7.0	0.0	7.0	0.0
27	Sikkim	137.4	1.1	136.3	0.8
28	Tripura	123.2	6.9	116.3	5.6
29	Uttarakhand	445.1	142.2	303.0	31.9
Total		134329.8	13769.2	120560.6	10.3

Source: Office of the 15th FC & NRDWP-MODWS for population data

However, the inferior quality of published fiscal data on revenue and expenditure has been reported by various UFCs and SFCs making them frustrated (*see Table 1.5*). These include non-availability of internal revenue and expenditure data of *Panchayats*, the funds transferred to them through various windows from the upper levels of governments in the form of devolution, grants and vertical schemes.

Table 1.5: Challenges Stated by SFCs for Local Fiscal Data

Sl. No.	Statements on Data Constraints	SFCs that made the Statement
1.	Non-availability of reliable statistical data/reliability constraint	Andhra Pradesh (3 rd SFC) (2005-06 -2009-10) Chhattisgarh (2 nd SFC) (2012-13 to 2016-17) Karnataka (3 rd SFC) (2008-09 to 2012-13) Punjab (4 th SFC) (2010-11 to 2014-15) Rajasthan (4 th SFC) (2010-11 to 2014-15) Karnataka (3 rd SFC) (2008-09 to 2012-13) Odisha (4 th SFC) (2015-16 to 2019-20) Punjab (4 th SFC) (2010-11 to 2014-15)
2.	Non-Availability of disaggregated data	West Bengal (4 th) (2015-16 to 2019-20)
3.	Timely availability of data/ time constraint	Assam (5 th SFC) (2015-2020) Tripura (3 rd) (2009-10 to 2014-15) Uttarakhand (3 rd) (2011-2016)
4.	Absence of a proper and effective institutional data collection mechanism /institutional constraint	Bihar (V th SFC) (2015-2020) Assam (V th SFC) (2015-2020) Chhattisgarh (2 nd SFC) (2012-13 to 2016-17) Gujarat (2 nd SFC) (2005-06 to 2009-10) Kerala (5 th SFC) (2016-17 to 2020-21) Maharashtra (3 rd SFC) (2006-07 to 2010-11) Rajasthan (4 th SFC) (2010-11 to 2014-15) Tamil Nadu (5 th SFC) (2016-17 to 2020-21)
5.	No central agency at the State level/supervisory constraint	Haryana (4 th SFC) (2011-12 to 2015-16)

Source: Author based on SFC reports

1.6 Borrowings

No reference is made in the CAA to loans and borrowing by *Panchayats*. In metropolitan cities, municipal corporations, with the approval of their State Governments, have floated bonds in the market. In contrast to the general belief that *Panchayats* are not empowered to raise loans (*Gulati, 1994, Oommen 1995, Rajaraman 2003 and Jha 2000*), the Local Authorities Loans Act, 1914, a Central Act, does exist enabling the grants of loans to local authorities, including *Panchayats*. (*Alok, 2009*)

1.7 State Finance Commission

Generally, proceeds from own sources contribute an abysmal share to the local pool. Local governments generally rely more on fiscal transfers from a State government in the form of shared taxes and grants. State taxes are shared as per the recommendations of the SFC. The SFC created, under Article 243-I, is viewed as the sub-national equivalent of the Union Finance Commission formed under Article 280 of the Constitution. The legal provisions for the SFC are, therefore, similar to those of the Union Finance Commission except the wordings of the first paragraph of Article 243-I that provides for the constitution of the SFC 'at the expiry of every fifth year.' This is not

akin to the provision under Article 280 constituting the Union Finance Commission 'at the expiry of every fifth year or earlier'. The missing part 'or earlier' disallows the constitution of a new SFC before the completion of the five-year-period. The Article mandates the SFC to review the financial position of the *Panchayats* and make recommendations to the Governor on the principles that 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, and their *inter se* distribution between the *Panchayats* at all levels for such proceeds;
- The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the *Panchayats*;
- The grants-in-aid to *Panchayats* from the Consolidated Fund of the State;
- The measures needed to improve the financial position of the *Panchayats*
- Any other matter in the interest of sound finances of the *Panchayats*

Several SFC reports and action taken on them have been referred to extensively in Chapter 4 of this report.

1.8 Revenue Handles Assigned to *Panchayats*

The Annex I shows State wise *de jure* assignment of revenue handles to each rung of *Panchayats*. The difference between *de jure* and *de facto* assignment of revenue exists in most States (*Alok, 2014*). In order to identify indicators and *de facto* devolution to *Panchayats*, a structured questionnaire was prepared and sent to the office of the 15th FC to illicit information from State Governments. A copy of the questionnaire is annexed as Annex II. The office of the 15th FC could not perhaps send the questionnaire to States.

CHAPTER 2

Role of the 15th Finance Commission under Article 280 (3) bb

With the passage of the 73rd and 74th Constitution Amendment Acts (CAA) *Panchayats* and Municipalities got recognition in the statute book as institutions of self-government. This accelerated the process of decentralization with greater devolution and delegation of powers to local governments. Consequently, Part IX (containing Articles 243, 243 A to 243 -O) and Part IXA (containing Articles 243 P to 243 Z, 243 ZA to 243 ZG) have been inserted in the Constitution¹ for *Panchayats* and Municipalities with effect from 24 April 1993 and 1 June 1993, respectively. Consequently, the State legislature has been made responsible for identifying the roles of *Panchayats* and Municipalities in matters listed in the Eleventh and Twelfth Schedules respectively. The State is also expected to transfer the concomitant powers to enable them to carry out the responsibilities conferred upon them.

Under the Constitution Amendment Act (CAA), the State legislature is expected to devolve responsibilities, powers and authorities to *Panchayats* and Municipalities to enable them to function as institutions of self-government. The legislature of a State may authorize *Panchayats* and Municipalities to levy, collect and appropriate certain taxes, duties, tolls and fees and also assign to them the revenues of certain State level taxes subject to such conditions as are imposed by the State Government. Further, grants-in-aid may also be provided to *Panchayats* and Municipalities.

The fiscal arrangement, after 1993, necessitates every State under Articles 243 (I&Y) to constitute, at a regular interval of five years, a Finance Commission (SFC), and assign it the task of reviewing the financial position of *Panchayats* and Municipalities and making recommendations on the sharing and assignment of various taxes, duties, tolls, fees, etc and grants-in-aid to be given to the local governments from the Consolidated Fund of a State. The conformity Acts of the CAA provide for the composition of the commission, qualifications for its members and the manner of their selection. Every recommendation of the commission together with an explanatory memorandum is to be laid before the legislature of the State.

Generally the functional responsibilities are closely linked with the financial powers delegated to the local government. In practice, a huge mismatch between these two aspects leads to

¹ Earlier Part IX dealing with territories in Part D of the First Schedule was repealed by the Constitution (7th Amendment) Act, 1956 with effect from 1 November 1956.

a severe fiscal stress at the local level. Own revenues of local governments are good enough to meet only a part of their operation and maintenance requirements. Therefore they are dependent on the higher level of governments to finance even their recurring expenditure. Towards this end, devolution of resources from the Union to States and States to *Panchayats* and Municipalities was considered a necessary requirement and clause "*measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and the Municipalities*" was inserted in Article 280 (3) of the Constitution on the recommendations of the Joint Parliamentary Committee headed by K P Singh Deo, which went into the Constitution (Seventy-third Amendment) Bill, 1991. Later, it was inserted in the Constitution (Seventy-second Amendment) Bill also. These two Bills were passed and ratified by States and known as 73rd and 74th Amendment Acts respectively.

Since then, all Presidential Orders issued at a regular interval of five years to constitute a Union Finance Commission (UFC) verbatim reproduced, in its terms of reference, sub-clause 280(3) (bb & c) which reads as

"the measures needed to augment the Consolidated Fund of State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State".

In this connection, the Order for the 11th Finance Commission was an exception. In that order, the following expressions were inserted in addition to the above clause:

"(a) the commission shall take into the account the recommendations of the State Finance Commissions; and

(b) where the State Finance Commission have not been constituted as yet, or have not submitted their report giving recommendations, the commission will make its own assessment about the manner and extent of augmentation of Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities in the State. While making such assessment, the commission –

(i) shall take into account the provisions required to be made for the emoluments and terminal benefits of the employees of local bodies including those of teachers;

(ii) shall take into account the existing powers of the Panchayats and Municipalities to raise financial resources including those by way of raising additional taxes by the Panchayats and Municipalities; and

(iii) the powers, authority and responsibility transferred to Panchayats and Municipalities under Articles 243 G and 243 W of the Constitution read with Schedule Eleven and Twelve"

Thereafter, the Presidential Order of the 12th, 13th, 14th and 15th Finance Commissions was verbatim re-production of Article 280(3) bb & c of the Constitution and is, therefore, a

Constitutional mandate of the Finance Commission. However, an attempt is made in this study to review matters only with respect to Sub-clause 'bb' i.e, *Panchayats* and not Sub-clause 'c' which refers to 'Municipalities'.

In addition to the above, the President of India empowered the 15th Finance Commission to "consider proposing measurable performance-based incentives for States, at the appropriate level of governments", in areas including "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"

2.1 Interpretation of Article 280 (3) (bb & c)

* It is significant that the provision regarding measures to augment the Consolidated Funds of the States is included in Article 280 and not in Parts IX & IX A of the Constitution. The amendment regarding *Panchayats* was actually suggested by the Joint Committee of Parliament headed by K P Singh Deo, which went into the Constitution (Seventy-third Amendment) Bill, 1991 (Lok Sabha 1992) as an express provision to supplement the resources of the local governments from Central resources. The Report of the Joint Committee was presented in Parliament on 14 July 1992 which explained the reasons for the insertion of this clause by using, *inter alia*, the following:

"The Centre-State fiscal relations are governed by constitutional provisions. Unfortunately there is no such constitutional mechanism at present which provides for a regular assessment of the fiscal resource gap that exists in municipalities on account of the increasing responsibilities thrust upon them," "...and for putting the devolution of resources to urban local bodies on a rational and firmer footing." The Joint Committee further explained that "apart from augmenting internal resources, methods need to be devised for enlarging the area of assured devolution and the quantum of assistance that will flow from the Centre to States and from States to the Municipalities."

* For these very reasons, the provision was later repeated in the Constitution (Seventy Second Amendment) Bill, 1991 for the insertion of Part IX and addition of Eleventh Schedule meant for *Panchayats*.

The fact that Article 280 was amended to add clauses (3)(bb & c) explains that just as the state government has the responsibility under Article 243 (I) to devolve resources to *Panchayats*, the Union Government also has a corresponding role and responsibility. The Article was inserted to enable and provide a legal basis for the passthrough of central funds to *Panchayats*, with which the centre has no direct relationship. The term "measures needed to augment the consolidated fund of a state"

offers a wide scope for intervention by the 15th Finance Commission. 'Measures' obviously include legislative, administrative and financial ones – and "financial measures" obviously mean direct flow of additional resources from the centre.

In addition, we may recall here what the then Minister for Rural Development said while moving the Constitution (Seventy-second Amendment) Bill, 1991 *"Constitution (Seventy-third) Amendment cast a duty on the centre as well as the states to establish and nourish the Village Panchayats so as to make them effective self-governing institutions.... We feel that unless the Panchayats are provided with adequate financial strength, it will be impossible for them to grow in stature"*. The Constitution (Seventy-third Amendment) Act, 1992 was considered imperative despite the existence of Panchayats in India for a long time. In the Constitution, it was included in the non-justiciable part under Article 40 of the Directive Principles of State Policy, which reads, *"The State shall take steps to organize village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government"*. Moreover, without any reference to panchayat, the term local government was also the part of item five of the State List in the Constitution. These provisions were, at best, only discretionary.

Before we deal with the mandate of the 15th Finance Commission for Panchayats, it is necessary to review the approaches and recommendations of the previous Union Finance Commissions on this aspect. The same is presented in Chapter 3.

CHAPTER-3

Approaches and Criteria Adopted by Union Finance Commissions to Devolve Funds to *Panchayats*

A Critical Review

Article 280 (3) bb of the Constitution has been addressed by five UFCs so far. The 10th Finance Commission (10th FC) took a *suo motu* cognizance in this regard as Article 280 had just been amended when the Commission was in office. In this connection, approaches and recommendations of each UFC are given below. Thereafter, comments are also provided.

3. UFCs' Approaches and Recommendations for *Panchayats*

3.1 10th Finance Commission (1995-2000)

Since the recommendations of the State Finance Commissions (SFCs) were not available, there was no duty cast on the 10th FC to make recommendation(s) in terms of Article 280 (3) bb. But, the 10th FC decided to make ad hoc augmentation of the Consolidated Fund of States with an assumption that proper assessment would follow with the recommendation(s) of SFCs.

The 10th FC referred to the Memorandum of the Ministry of Rural Development stating that the finances of *Panchayats* had not been studied in detail since the published figures of the year 1976-77 in which the per capita share of taxes and grants, taking all States together, assigned to *Panchayats* had been worked out as Rs. 14.75. This had been projected for the year 1992-93 to reach a per capita figure of Rs. 54.87 multiplied with the latest census figure of rural population of 62.87 crores to arrive at Rs. 3,445 crores. The 10th FC kept this figure in mind and allocated Rs. 4,380.93 crores @ Rs. 100 per capita of rural population of all States which was 4,380.93 lakhs according to the 1971 Census figures. The grant was untied but not intended for expenditure on salaries and wages.

The Commission remarked categorically about the *ad hoc* nature of the recommendation unworthy of being cited as the precedent for subsequent UFCs. Further, the 10th FC emphasized that the amount should be treated as additionality over and above the amounts flowing to *Panchayats* from State Governments.

The amount was recommended to be transferred even to those States which were not required to have *Panchayats*, as per the 73rd Amendment of the Constitution, but had similar local

level representative bodies. The amount was recommended to be made available to the States in four equal instalments from 1996-97.

Comments

Merits:

- a) The 10th FC recommended an *ad hoc* grant and gave absolute freedom to subsequent UFCs in fixing the amount which would not be linked to any requirement of *Panchayats*, but only what might be affordable for the Union.
- b) Though the grant was not meant for the payment of salaries and wages, it was largely untied respecting the autonomy of *Panchayats*. The SFC was rightly assigned responsibilities for its further distribution to *Panchayats* in the State.
- c) The 10th FC rightly inserted the word 'additionality' to prevent the tendency of the State in tampering with the normal fund flow to *Panchayats* in view of the additional fiscal transfer from the Union.

Demerits

- a) The 10th FC recommended an *ad hoc* grant for *Panchayats* on the sole basis of the rural population figure as per Census 1971 and undermined other important criteria, including fiscal efforts, fiscal needs and fiscal capacity.
- b) Population was taken as the sole basis of fiscal transfer which creates the effect of perpetuating the status quo. Hence, the variations in the fiscal cost of providing basic services in low-population density areas could not be studied.
- c) The approach completely ignored the Constitutional mandate. It could only be viewed as an exercise in tokenism.
- d) At the very beginning, the 10th FC imposed conditionality by stipulating that its grant was not to be applied to establishment cost. As a result, Rs 804.58 crores which was equivalent to 33.54% of the total grant remained idle.

Table 3.1: Criteria used by the 10th, 11th and 12th Finance Commissions to allocate Grants-in-aid to *Panchayats*

10 th FC(1995-00)		11 th FC(2000-05)		12 th FC (2005-10)	
Criteria/Indicators	Weight (%)	Criteria/Indicators	Weight (%)	Criteria/Indicators	Weight (%)
Population (1971 Census)	100	Rural Population (1991 Census)	40	Population (2001 Census)	40
		Geographical Area	10	Geographical Area	10
		Distance (from Per Capita Agricultural Income)	20	Distance (from highest Per Capita Income)	20
		Index of Decentralization (I _D)	20	Index of Deprivation (D.I)	10

	Revenue Effort (Local Government)	10	Revenue Effort (w.r.t. State's Own Revenue)	10
			Revenue Effort (w.r.t. GSDP)	10
Total Weight	-NA-	100		100
-Explanatory Remarks-				
A grant of Rs. 100 per capita of rural population as per the 1971 Census figure to <i>Panchayats</i> , which worked out to a total of Rs.4380.93 Crores	List of 10 parameters used to get ID are: (i) Enactment/Amendment of State Panchayat Legislation in conformity with the 73 rd CAA; (ii) Intervention in the functioning of <i>Panchayats</i> ; (iii) Assignment of functions to the <i>Panchayats</i> by State legislature vis-à-vis 11 th Schedule; (iv) de facto transfer of functions to <i>Panchayats</i> by way of rules/notifications/orders; (v) Assignment of taxation power to <i>Panchayats</i> ; (vi) Levy of taxes by <i>Panchayats</i> ; (vii) Constitution of SFC & submission of corresponding ATR; (viii) Actions taken on the major recommendations of SFC; (ix) Elections to local government; & (x) Constitution of District Planning Committee as per the letter & spirit of Article 243 ZD Grant of Rs. 8000 Crores for <i>Panchayats</i>		D.I - It takes into account intra-State disparities on the basis of data relating to certain minimum needs of the population. Drinking water and sanitation are the two core services performed by the local governments. State-wise Census 2001 data were used regarding the number of households fetching water from a distance (over 500 meters in the case of rural households), households with no latrines within the house premises & households with no drainage facilities for flow of waste water, had been used to construct index. Mathematically: $D.I = 0.5x + 0.25(y+z)$, Where D.I- Deprivation Index; x- %age-of household fetching water from distance; y-%age of household without latrines; z- %age of household without drainage; 0.5- Standard Deviation (least deprived State as per 2001 Census), Gross State Domestic Product-GSDP Rs. 20,000 Crores Grant for <i>Panchayats</i>	

Source: Reports of the 10th, 11th and 12th Finance Commissions

Table 3.2: Criteria Used by the 13th and 14th Finance Commissions to allocate Grants-in -aid to *Panchayats*

13 th FC(2010-15)		14 th FC (2015-20)	
Criteria/Indicators	Weight (%)	Criteria/Indicators	Weight (%)
Population (2001 Census)	50	Population (2011 Census)	90
Area	10	Area	10
Distance from highest per capita sectoral income	10		
Index of devolution	15		
SC/ST proportion in the Population	10		
Tax/Revenue Effort (FC Rural Local Government Grant Utilization index)	5		
Total Weight	100		100

-Explanatory Remarks-

The Index of Devolution derived from the finance accounts for the years 2005-06, 2006-07 and 2007-08. The amounts devolved to *Panchayats* in the finance accounts have been aggregated across the following heads – under sub heads 196, 197, and 198 and under the applicable major heads in the non-plan category.

Grants for *Panchayats* - General Basic grant and General Performance grant.

No conditions were set for accessing the basic grant. However, there are a set of six conditions for *Panchayats* to access the Performance Grant. Both grants were allocated to *Panchayats* on the basis of the Census 2001 population.

Grant to *Panchayats*- Rs. 63,051 crores

The allocation of grants was in two parts, namely- basic grant and performance grant for duly constituted Gram *Panchayats*. Under this, 90 per cent of the grant was the basic grant and 10 per cent was the Performance Grant.

Eligibility to get Performance Grant- The submission of audited annual accounts of *Gram Panchayats* relating to a year not earlier than two years preceding the year in which the Gram Panchayat sought to claim the performance grant. It had to show an increase in the own revenues of the local government over the preceding year, as reflected in the audited accounts.

Grants to *Panchayats*-Rs.2,00,292.2 crores [Basic Grant Rs. 1,80,263 crores & Performance Grant- Rs. 20.029 crores]

Source: 13th and 14th Finance Commission Reports

3.2 11th Finance Commission (2000-05)

The 11th FC was the first UFC asked by the President to make recommendations with respect to Article 280 (3) bb. In addition, as mentioned in the previous Chapter, the 11th FC was asked to make its own assessment, if SFCs reports were not available, in the matter related to emoluments and terminal benefits of the employees of *Panchayats*, including teachers.

In its approach, the 11th FC identified certain critical areas. The first among them was the maintenance of civic services in rural areas which included the provision of primary education, primary healthcare, safe drinking water, street lighting, sanitation, maintenance of cremation of burial grounds, public conveniences and common property resources. The 11th FC recommended speeding up the devolution of functions, finances and functionaries related to these matters. The capital cost of these civic services was recommended to be met under the concerned budgetary heads of the States and the subsequent O&M cost of these services could be met by raising tax revenues and user charges and devolution of funds from States.

A total grant of Rs. 1,600 crores was recommended for *Panchayats* through States for each of the five years starting from the financial year 2000-01. The amount indicated was meant to be used primarily for the maintenance of accounts, the audit of accounts and the development of a database. These grants were to be released by the concerned Ministries of the Government of India after the arrangements suggested become operational.

These grants were to be used only by Village *Panchayats* where Intermediate or district level *Panchayats* had no direct responsibilities.

In order to decide *inter-se* allocations among States for *Panchayats*, multiple indicators, namely: the population, area, the distance from per capita agricultural income, the index of decentralization and the revenue effort of *Panchayats* were used. (For detail please see Table 3.1).

The 11th FC used the 1991 Census figure for the rural population and the geographical area. Further, for measuring the 'distance from per capita agricultural income' the average per capita GSDP from the primary sector (at current prices, excluding mining and quarrying) was taken by using the GSDP figures published by the CSO and population figures (projections) published by the Registrar General of India for three years *viz* 1994-95, 1995-96 and 1996-97. The distance of each State was measured from the reference highest point *viz* the highest average per capita GSDP, plus half of the standard deviation. The distances were weighted by the 1991 rural population figures of the respective States to arrive at their shares.

The own revenue efforts of *Panchayats* in each State were measured against two indicators *viz* (i) the State's own revenue and (ii) the GSDP from the primary sector, excluding mining and quarrying.

Further, the ratio of the own revenue collection of *Panchayats* in each State was measured with the own revenue collection of the State Government for three year, *viz* 1995-96, 1996-97 and 1997-98. The average of these ratios was weighted by the 1991 rural population figures to arrive at the share of each State. This indicator was given a weight of 5 per cent in the total allocation.

The own revenue collection of *Panchayats* in each State was measured against the GSDP from the primary sector excluding mining and quarrying for the years 1994-95, 1995-96 and 1996-97. The average of these ratios was weighted by the 1991 rural population figures to arrive at the share of each State. This indicator was given a weight of 5 per cent in the total allocation. (Please see Table 3.1).

The other major recommendations of the 11th FC pertaining to *Panchayats* are as follows.

- Article 243 I of the Constitution should be amended to enable States to set up their SFCs at the expiry of every fifth year or earlier, akin to the provision that already exists under Article 280 for constituting the UFC. The synchronization of the UFC with the SFC and the availability of SFC reports to the UFC for the relevant period were the main intention behind the suggestion.

- There should be specific chapters in SFC reports so as to make them more useful to the UFC.
- Amendments to State laws were recommended to ensure a) taking decisions by State Governments, within six months, on the suggestions of SFCs and b) appointing qualified chairpersons and Members of SFCs in specific disciplines such as public finance, economics, law and public administration.
- The Constitution was to be amended to delete the words 'on the basis of the recommendations made by the Finance Commission of the State', appearing in Sub-clause (bb)² of Article 280(3) of the statute.
- The grants recommended for *Panchayats* by the 11th FC were to be given to those *Panchayats* which had the primary responsibility for maintenance of civic services. The grant was untied, but should not have to be used for payment of salaries and wages.
- States were required to review the existing accounting heads under which funds were being transferred to *Panchayats*. For each major head/sub-major head, six minor heads were to be created- three for the *Panchayats* and another three for the municipalities. This was to be done in consultation with the Comptroller and Auditor General of India (C&AG) and the Controller General of Accounts, to ensure uniformity among the States.
- The C&AG was to be entrusted with the responsibility of exercising control and supervision over the maintenance of accounts and their audit for all the tiers/levels of *Panchayats*.
- The Director, Local Fund Audit, or any other agency made responsible for the audit of accounts of *Panchayats*, was required to work under the technical and administrative supervision of the C&AG. The Director for *Panchayats* was not to be entrusted with this work under any circumstances.
- The C&AG was required to prescribe the format for the preparation of budgets and for keeping of accounts by *Panchayats*, which should be amenable to computerization.
- *Panchayats* without trained accounts staff were advised to contract out the upkeep of accounts to outside agencies/persons. The C&AG was required to lay down the qualification and experience required for this purpose. The Director, Local Fund Audit, or his equivalent authority, could do the registration of such agencies/persons.
- Audit of accounts of *Panchayats* was recommended to be entrusted to the C&AG, who could get it done through his own staff, or by engaging outside agencies on payment of remuneration fixed by him/her. An amount of half per cent of the total expenditure incurred by *Panchayats* was to be placed with the C&AG for that purpose.

² Sub-clause (bb) of Article 230 (3) says that the measures needed to augment the Consolidated Fund of a State should supplement the resources of the *Panchayats* on the basis of the recommendations made by the Finance Commission of the State.

- The report of the C&AG relating to the audit of accounts of *Panchayats* was required to be placed before a committee of the State Legislature constituted on the same lines as the Public Accounts Committee.
- An amount of Rs. 4,000 per *Panchayat* per annum, on an average, was considered to be adequate to meet the expenditure on the maintenance of accounts on a contract basis. The amount was to be paid from the grants that were recommended for *Panchayats*.
- A database on the finances of *Panchayats* was to be developed at the District, State and Union Government levels which could be easily accessible on line. The Director, Local Fund Audit, or similar authority for conducting the audit of accounts of *Panchayats*, was to be made responsible for the task under the overall monitoring and coordination of the Chief Secretary of the State. The C&AG needed to be involved at all stages

A total grant of Rs. 1,600 crores for *Panchayats* was recommended to be given to States for each of the five years starting from the financial year 2000-01. The amount was meant to be primarily used for the maintenance of accounts, the audit of accounts and the development of a database. These grants were to be released by the concerned Ministries of the Government of India. Shares in respect of the Scheduled Tribal and other excluded areas were to be made available to the respective States only after the relevant legislative measures were taken extending the provisions of the 73rd CAA to such areas.

The *inter-se* share of States in the grants provided for *Panchayats* was based on the rural population of the State (40 per cent), the index of decentralization (20 per cent), the distance from the highest per capita income (20 per cent), the revenue effort of *Panchayats* (10 per cent) and the geographical area (10 per cent).

Comments

Merits:

- a) The approach of the 11th FC to include the criteria of population figures and the geographical area for transferring grants to *Panchayats* was lauded by many on the grounds of neutrality and general acceptability.
- b) For the first time, the issue of the local government data set was brought strongly to the attention of everyone. The 11th FC attempted to involve almost every authority for the collection, tabulation and retrieval of the data set.
- c) The 11th FC was the first to emphasize the need for improvement in *Panchayats* audits by recommending that the CAG should be responsible for the overall control over the maintenance of accounts and audits of all tiers of *Panchayats*. It went into detail and recommended that the CAG audit reports on *Panchayats* should be placed in the Legislative Assembly. In addition, the 11th FC proposed grants to States for the compilation of accounts

and creation of a database on local finances. Ironically, only 30 per cent utilization of this grant amount was reported by the Ministry of Finance to the 12th FC. (GoI, 2018).

Demerits:

- a) At the initial stage of decentralization, construction of the 'index of decentralization' was criticized by many as not a good criterion for devolving funds to *Panchayats* on the grounds that decentralization in a particular State largely depends on the political ideology of ruling party. *Panchayats* should not be punished for the anti-decentralization stand of State Governments.
- b) The 'index of decentralization' with a few indicators was considered rudimentary. One of the components of the index of decentralization was 'assignment of taxation power to village panchayat.' This ignores the other rungs of *Panchayats* (intermediate and district) despite the fact that these two rungs of *Panchayats* are more infrastructural endowed in many States. (Pal, 2000)
- c) The 11th FC failed to say anything about the training and awareness building for newly elected representatives in *Panchayats*. In fact, there was a need to evolve a policy in order to train more than three million elected representatives. (Pal, 2000)
- d) The grants could not be fully utilized as only Rs. 6601.85 crores or 82.52 per cent of the total allocation in the entire award period was withdrawn by *Panchayats* and the remaining 17.48 per cent amount equivalent to Rs. 1398.15 crores was not even withdrawn by *Panchayats*.
- e) The 11th FC had attempted to incorporate efficiency concerns into the distribution formula by assigning a 10% weightage for revenue mobilization by *Panchayats* from their own sources. In order to rationalize differential norms in this regard, the Commission linked the effort made by *Panchayats* to raise own revenues to the States' own revenue as well as the SDP from the primary sector excluding mining and quarrying. These have been suitably weighted by the rural population. A weightage of 5% was given for the ratio of own revenue of the *Panchayats* to own revenue of the State and the ratio of own revenue of *Panchayats* to the SDP.
- f) The emphasis given to efficiency in the form of revenue effort linked to the States revenue and SDP is certainly not misplaced. However, the reliability of data relating the 2.5 lakh *Panchayats* solely on the basis of information furnished by the States to consultants for the purpose of their study is a critical issue. Besides the question of credibility of the data, the linkage of own revenue to State revenue could be misleading in as much as certain taxes that may legitimately belong to *Panchayats* may be collected in a centralized manner in some States in the interest of efficiency. The formula would operate unfairly on such States even though the centralized taxes may be completely assigned to or devolved on the *Panchayats* on the basis of the SFC recommendations. It is, therefore, necessary that while considering the revenue effort, the total revenue collected by the State with regard to all the revenues that may legitimately be said to belong to *Panchayats* are taken into account so that no State is penalized for the efficiency that it has sought to achieve through centralized collections of revenues. A better indicator of efficiency would be the effort in terms of revenue realized by *Panchayats* from all sources, including tax devolution, tax assignment and unconditional and

untied grants-in-aid not linked to any scheme as against the revenue potential determined on a normative basis.

Table 3.3: Quantum of Grants-in-aid by Union Finance Commissions to Panchayats

Union Finance Commission (1)	Grants-in-aid for Panchayats (Rs Cr) (2)	Multiple increase over previous recommendations (3)	Share in Union's Divisible Pool (%) (4)
10 th (1995-2000)	4380.93	-na-	1.12
11 th (2000-05)	8,000.00	1.8 times	0.62
12 th (2005-10)	20,000.00	2.5 times	0.99
13 th (2010-15)	63,050.50	3.15 times	1.64
14 th (2015-20)	200,292.20	3.17 times	2.13

Source- Author's calculation based upon UFCs reports and Babu (2018) for column 4.

-na- not applicable

3.3 12th Finance Commission (2005-10)

The approach of the 12th FC was to strengthen the fiscal domain for Panchayats as the key to effective local self governance. The Commission states, "The provision of local [public] goods requires that the link between local service and the responsibility of financing it by the potential beneficiaries is appreciated. Since the local public goods have limited externalities, financing by external sources has considerable problem of adverse incentives that could lead to increasing dependence on transfers from above. The idea can work only if the local bodies are assigned adequate sources of revenue by the States". In addition, the following was emphasized, "the principle of equalization, extended to Panchayats would mean that while lack of fiscal capacity, at the State level as well as the local level can be made up, lack of revenue effort should not be made up". The 12th FC articulated the same, in other words, "decentralization in governance is considered efficiency augmenting as local representatives are presumed to better understand the preferences, needs, and willingness to finance the provision of the related local goods provided adequate sources were assigned to them" (GoI 2004, p 26).

The 12th FC recommended a sum of Rs.20,000 crores for Panchayats as grants-in-aid to augment the Consolidated Funds of States for the 2005-10 period to be distributed among States as per the formula indicated in Table 3.1. The allocation was 2.5 times more than that of the previous UFC (please see Table 3.3).

The *Panchayats* were encouraged to take over the assets relating to water supply and sanitation and utilize the grants for repairs/rejuvenation as also the O&M costs. *Panchayats* were, however, asked to recover at least 50 percent of the recurring costs in the form of user charges.

Of the grants allocated for *Panchayats*, priority was given to expenditure on the O&M costs of water supply and sanitation. The next priority out of the grants allocated was to the creation of a database and the maintenance of accounts through the use of modern technology, including the GIS (Geographic Information System) and management systems. This was intended to facilitate *Panchayats* to take over the schemes and operate them. States were asked to assess the requirement of each *Panchayats* in that regard and earmark funds accordingly out of the total allocation recommended by the 12th FC.

The 12th FC did not recommend separate grants-in-aid for the excluded areas and left it to the State concerned to distribute the grants recommended among *Panchayats*, including those in the excluded areas in a fair and just manner.

The 12th FC categorically asked the Union Government not to impose any other conditionality for releasing the grants-in-aid.

The 12th FC recommended the following best practices for the consideration of States to improve the resources of *Panchayats*:

- The levy of certain major taxes and the exploitation of non-tax revenue sources were to be made obligatory for *Panchayats*. The minimum rates for all such levies were to be fixed by the State Government.
- A minimum revenue collection from *Panchayat* taxes was to be insisted.
- An incentive grant related to revenue collection beyond a prescribed minimum was to be introduced by the State Government.
- User charge was to be made an obligatory levy.
- All common property resources vested in village *Panchayats* were to be identified, listed and made productive of revenue.
- The valuation of taxable pieces of land and buildings was to be done by a separate cell in the Panchayati Raj Department of the State Government and not left to *Panchayats*.
- Powers to levy a tax/surcharge/cess on agricultural holdings were required to be given to the Intermediate or District *Panchayats*.

- Revenue transfer from States to *Panchayats* in the form of revenue sharing/revenue assignment was to be made statutory in nature.
- The quantum of revenue that a *Panchayat* could reasonably expect under the revenue sharing mechanism had to be predictable.
- State Governments were not supposed to desist from unilaterally taking decisions in regard to revenue whose proceeds were to be transferred either in full or in part to *Panchayats*.
- State Governments were advised to adhere to their commitments in regard to grants-in-aid.
- All untied grants to *Panchayats* were to be made statutory in nature;

In addition, the 12th FC made the following recommendations for strengthening SFCs and the accounts and audit system:

- The maintenance of accounts by *Panchayats* should be standardized.
- *Panchayat* Department officials should not be made statutory auditors of village *Panchayats*.
- The accounts of Intermediate and District *Panchayats* should be subjected to audit by the Comptroller and Auditor General (CAG).
- A performance audit system should be adopted.
- An SFC should be constituted for a lifespan of 18 months and a time limit of six months be prescribed for a State Government to act on recommendations.
- The States should avoid delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, and submission of reports and tabling of the ATR in the legislature. It was advised to constitute SFCs at least two years before the required date of submission of their recommendations. The SFCs were advised to submit their reports so as to allow State Governments at least three months' time for tabling the ATR, preferably along with the budget for the ensuing financial year.
- The SFC reports should be readily available to the UFC, enabling the latter to assess State needs on the basis of uniform principles.
- As the periodicity of UFC constitution is predictable, the States should time the constitution of their SFCs suitably.
- SFCs must be constituted with people of eminence and competence with qualifications and experience in the relevant fields.

- The convention established at the national level of accepting the principal recommendations of the Finance Commission without modification, should be followed at the State level in respect of SFC reports.
- The SFCs were advised to clearly identify the issues which require action on the part of the Union Government to augment the Consolidated Fund of the State and list them out in a separate chapter for the consideration of the UFC.
- The suggestion made by SFCs regarding raising the ceiling on professional tax was endorsed for action by Union Government.
- SFCs were advised to follow the procedure adopted by the UFC for transfer of resources from the Union to the States in respect of resource transfers from State Governments to *Panchayats*. The SFC reports were expected to contain an estimation and analysis of the finances of the State Government as well as *Panchayats* at the pre and post transfer stages along with a quantification of revenues that could be generated additionally by *Panchayats* by adopting the measures recommended. The remaining gaps could be the basis for the measures to be recommended by the UFC.
- The SFCs were advised to follow normative approach in the assessment of revenues and expenditure rather than making forecasts based on historical trends.
- The 12th FC recommended creating a permanent SFC cell in the Finance Department of State Governments for the collection and collation of data on a sustainable basis.

The 12th FC ordained State Governments not to take more than 15 days in transferring the grants to *Panchayats* after their release by the Union Government. The centre was advised to take a serious view of any undue delay on the part of the State.

The 12th FC continued to use the criteria of population and geographical area adopted by the 11th FC in view of neutrality and universal acceptance of these two indicators for IGFT to *Panchayats*. In addition, the 12th FC retained the indicator 'revenue effort made by *Panchayats*' but included activities of mining and quarrying in the primary sector whereas the 11th FC had excluded it. This indicator was bifurcated into two sub sections assigning equal weightage of 10 per cent each namely: 'revenue effort of *Panchayats* w.r.t. own revenue of State and w.r.t. Gross State Domestic Product (GSDP)'. The 12th FC had employed an index termed as 'index of deprivation' in its formula for IGFT to *Panchayats* in order to consider inter-State disparities. This was based on the data relating to certain minimum needs (including two core basic services performed by *Panchayats* namely: drinking water and sanitation) of the population. In the construction of the index, three indicators were used

namely, the 'household fetching water from far away', the 'household with no drainage', and the 'household with no latrines'. (Please see Table 3.1 for details)

Comments

Merits:

- a) The 12th FC recognized that the conditionalities imposed for the release of funds to *Panchayats* finally handicapped the very *Panchayats* for which they were meant. It was essentially the non performance by State Governments. The 12th FC discouraged the conditionalities.
- b) The 12th FC had included the creation of databases and the maintenance of accounts through the use of modern technology and management among the high priority expenditure areas for local governments. However, in the absence of proper costing of data, the Commission had not made specific allocations for different types of expenditure, giving States discretion to earmark expenditure to *Panchayats* as per their own assessment of expenditure requirements. (GoI, 2018)

Demerits:

- a) Subsequently the 13th FC had criticized the liberal approach of the 12th FC as well as its predecessors with respect to not imposing strict conditionalities for releasing funds to *Panchayats*. On the contrary, the 13th FC felt the need for building a stronger and robust incentive system for the maintenance of accounts by *Panchayats* and their audits. (GoI, 2009, p152)
- b) The construction of the 'index of deprivation' on the basis of only three indicators, i.e. the 'lack of safe drinking water in close proximity', the 'lack of latrines in household' and the 'lack of access to drainage' was considered rudimentary.
- c) Out of total grants-in-aid for *Panchayats* by the 12th FC, Rs. 1335.23 crores or 7.42 per cent of the total grants remained unutilized.

3.4 13th Finance Commission (2010-15)

The issues addressed by the 13th FC fall under the following four broad categories:

- Devolution: These include: (a) The volume of support to *Panchayats* and the parameters that should be used for deciding interstate allocations; (b) the basis on which grants are distributed between rural and urban areas; (c) whether *Panchayats* can be provided a share of the divisible pool instead of a grant; (d) possibilities for using a devolution index, (e) speedy transmission of funds to *Panchayats* and (f) liabilities of conditionality
- Preparation of accounts and audit: These include: (a) uniformity and consistency in the accounts of *Panchayats*; (b) a uniform audit procedure for all States in the country to ensure comparability and (c) accountability of *Panchayats* through appropriate mechanisms.

- **Functioning of SFCs:** These include: (a) the need to ensure that SFC reports across States are adequately analytical and similar in approach; (b) the need to ensure that State Governments take prompt action on the SFC recommendations; (c) the need to ensure that SFC reports are synchronous with the report of the UFC; (d) basis for division of grants between rural and urban local governments.
- **Others:** (a) The role of development authorities and their functioning with regard to Schedules XI and XII; (b) treatment of 'excluded' areas where Parts IX and IX A of the Constitution do not apply; (c) measures needed to enhance the collection of property tax; (d) revamping of fire services and (e) treatment of Nagar Panchayats.

Table 3.4: Classification of Indicators based upon their fiscal attributes

Indicators Used by UFCs: Transfer of Grant-in-Aid to Panchayats					
Sl. No.	Union Finance Commission	Classification of Indicators Under Following Heads (% Weight)			
		Fiscal Need	Fiscal Capacity	Fiscal Effort	Disability Factor
1.	Tenth (1995-00)	Population (100)	-	-	-
2.	Eleventh (2000-05)	Population (40), Area (10) Distance from Per Capita Agricultural Income (20)	Index of Decentralization (20)	Revenue/Tax Effort of Panchayats (10)	-
3.	Twelfth (2005-10)	Population (40), Area (10) Distance from highest Per Capita Income (20)	-	Revenue Effort by Panchayats w.r.t a) State's Own Revenue (10) and b) GSDP (10)	Index of Deprivation (10)
4.	Thirteenth (2010-15)	Population (50) Area (10) Distance from highest per capita Sectoral Income (10)	Index of Devolution (15)	Tax/Revenue Effort/FC Rural Local Government Grant Utilization index(5)	Proportion of SCs/STs in the Rural Population (10)
5.	Fourteenth (2015-20)	Population (90) Area (10)	-	-	-

Source: Author's Calculation based upon UFCs Reports, (-) denotes Not Assigned

* Area as an indicator on one side reflects equity-neutral measure of Fiscal Need as per the 13th FC but on the contrary it also reflects cost disadvantage or a factor of cost disability in case it is hilly, forest, desert, coastal, jurisdictions near international boundaries, and others as such.

In its approach, the 13th FC attempted to incentivize devolution and performance through the introduction of a performance-based component only in those States which could meet the stipulation. The performance-based incentive was adopted in addition to the basic grant component. The performance-based grants were aimed at inducing change to improve the functioning of Panchayats, ensuring predictability and transparency in the transfer of funds and enhancing the functioning of SFCs.

In its path breaking recommendations, the 13th FC decided to transfer a percentage share of *Panchayats* in the divisible pool of taxes (over and above the share of the States). This share was to be (a) converted into grants-in-aid under Article 275 and (b) calculated for a particular year from the divisible pool for the previous year (t-1). In other words, the grants-in-aid to *Panchayats*, were calculated from the revised estimates of the divisible pool of the previous year. The adjustments were made in the second tranche after the 'actual' of that year had been determined.

The proposal was to award 2.28 per cent of the relevant divisible pool (2009-14) as a grant to local governments- both *Panchayats* and Municipalities. This was equivalent to 1.93 per cent of the 2010-15 divisible pool- the award period for the 13th FC.

The basic grant was equivalent to 1.50 per cent of the previous year's divisible pool. All States were eligible to have access to the grant for all the five years as per the criteria and weight mentioned in Table 3.2.

The performance grant effective from 2011-12 was 0.50 per cent for the year 2011-12 and 1 per cent thereafter up to 2014-15.

For the release of Performance Grant, compliance of the following six conditions by the States was necessary: 1) reforms in budget and accounts; 2) technical guidance and support (TG&S) from the Comptroller and Auditor General (CAG) over the audit of the accounts of *Panchayats*; 3) timely transfer of funds to *Panchayats*; 4) appointment of Ombudsman; 5) prescribing eligibility qualifications for the appointment of Members of SFCs; and 6) empowering *Panchayats* to levy property tax without hindrances.

The other major recommendations of the 13th FC relate to the following:

- Amendment in the Constitution towards streamlining SFC functioning
- Strengthening of local fund audit departments through capacity building as well as personnel augmentation
- Incentivizing revenue collection by *Panchayats* through mandating local taxes and by deducting deemed own revenue collection from transfer entitlements of *Panchayats* or through matching grants
- The finance accounts of the State were required to include a separate statement indicating head wise details of actual expenditures under the same heads as used in the budget for *Panchayats*.

- States to share income from royalties with those of *Panchayats* in whose jurisdiction such income arises.
- Recommendations of SFCs to be implemented without delay and an Action Taken Report to be promptly placed before the Legislature.

Comments

Merits:

- a) The 13th FC opened up the possibility of formulaic tax devolution to the third tier in order to strengthen and empower democratic decentralization process, through an interesting/innovative mechanism. This provided much needed “revenue buoyancy” to the local governments. (*Kelkar, 2019*)
- b) The 13th FC had recommended that the local audit departments should be strengthened through capacity improvements and hiring of personnel. Additionally, it had suggested that the finance accounts should include a separate statement (w.e.f 31st March 2012) indicating headwise details of actual expenditures under the same heads as used in the budget for *Panchayats*. Specifically on data, the 13th FC had noted that the lack of audited comparable data across *Panchayats* hindered a proper utilization of the same by SFCs. (*GoI, 2018*)
- c) The weightage to the ‘Index of Devolution’ in the IGFT is of significant importance as decentralization is a “good practice” and it is in conformity with the tenets of both the enlightened self-interest of the States and incentive compatibility. Further Econometric evidence suggests that those States that decentralize well have been benefited through higher tax buoyancies at local levels thus relieving fiscal stress on the State itself. (*Petbe, 2009*)
- d) Manyfold increase in the flows to *Panchayats* (please see Table 3.3) with emphasis that fund assignment formulae should not be cluttered or complicated was the idea appreciated by many. The recommended flows to *Panchayats* were focused on allowing *Panchayats* to operate and maintain the assets in some demarcated areas (such as water, roads and education). (*Petbe, 2009*)
- e) Unlike its predecessors, the 13th FC upheld the view that *Panchayats* should be supported through “a predictable and buoyant source of revenue” substantially higher than in the past and relating grants to *Panchayat* with the Union tax divisible pool. And with this initiative, the 13th FC made *Panchayats* an integral part of public finance in the country. (*Oommen, 2010*)

Demerits:

- a) The statement of the 13th FC, “We have not imposed any stipulation that State governments maintain their present level of transfers such that FC transfers become additionality”, is inconsistent with the spirit of Article 280(3) (bb) that requires UFC transfers “to augment” the Consolidated Fund of a State to “supplement” the resources of *Panchayats*. There was an apprehension that the

poor States could piggyback on UFC grants, which could have an adverse impact on genuine fiscal decentralization and good local governance. (Oommen, 2010)

- b) The 13th FC has not only given a lower weight to the devolution index, but also the components chosen to build it leave many things to be desired. (Oommen, 2010)
- c) The 13th FC has dispensed with the tax or revenue effort criterion with regard to local grants on the plea that credible data was not available. The 11th FC and the 12th FC used revenue effort as a criterion, based on the local fiscal data they had collected. The 13th FC had data for six years and it could have obtained better outcomes by using the tax or revenue effort criterion. The criteria used by the 13th FC lacked fairness to some degree. For instance, the horizontal formula with a 50% weight for population and a 10% weight for area shifts the scale in favour of less decentralized States against more decentralized States which had assigned good number of tax handles and have high per capita tax revenue. “A wrong choice of criteria can lead to very unfair results”. (Oommen, 2010, p 97)
- d) The 13th FC Report says that “the quality of SFC reports continues to be patchy”, but it is silent on where and how they continue to be so. It could have pointed out where exactly each SFC had failed in honouring its constitutional and historical responsibilities. (Oommen, 2010)
- e) The shares of local government expenditure in total public expenditure and in the GDP have increased, while their shares in total public-sector revenue and GDP have declined. The 13th FC could have chosen to treat its grants to *Panchayats* as additionalities “to augment” the Consolidated Fund of a State “to supplement” the resources of *Panchayats*. (Oommen, 2010)
- f) A major concern is the plethora of conditionalities imposed by the 13th FC. There were several conditions stipulated for incentivizing *Panchayats* based upon their performances. There were questions of design, implementation, monitoring and effectiveness of these conditions. The suggested mechanism seemed flawed as the grants were targeted at the *Panchayats* but the conditions had to be met by the States. There seemed to be no incentive for the States to fulfil the conditions. (Rao, 2010)

3.5 14th Finance Commission (2015-20)

The 14th FC showed sensitivity to the needs of *Panchayats* and their role in providing public services as required by their respective statutes. The Commission emphasized the predominant role of States and, in particular, SFCs in empowering *Panchayats*. The Commission intended to enhance the flow of resources in an *assured, objective and untied* manner. The Commission was of the view, that “the rewards that come from placing trust in *Panchayats* far exceed the costs associated with administering and complying with conditionalities”. The Commission provided strong incentives, at the margin, for performance in terms of maintaining audit and accounts and generating own revenues.

In framing recommendations for grants to *Panchayats*, the 14th FC considered the following factors - enhancement of grants, minimal conditionalities, strengthening the role of the SFCs and placing trust in *Panchayats*.

The 14th FC recommended Rs. 2, 00,292.2 crores for *Panchayats* for the award period 2015-20 constituting an assistance of Rs. 488 per capita per annum at an aggregate level. The grant had two components, namely- a basic grant and a performance grant for duly constituted Gram *Panchayats* i.e. 90 per cent and 10 per cent respectively. In other words, Rs. 1, 80,262.98 crores was the Basic Grant and Rs.20029.22 crores was the Performance Grant for 26 States. Non-Part IX areas where *Panchayats* do not exist had not been recommended the grants. These are- Mizoram, Meghalaya, Nagaland and the Sixth Schedule areas in the State of Assam (Bodoland, North Cachar and Karbi Anglong districts), Tripura, and Hill areas of Manipur (for which District Councils exist).

The grant was intended to be used to improve the status of basic services including water supply, sanitation, including sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street-lighting, and burial and cremation grounds, and any other basic service within the functions assigned to them under relevant legislation. The grants were required to be allocated and released to various States by the Ministry of Finance (Department of Expenditure) in accordance with the guidelines issued by that Ministry. The Ministry of Finance had issued detailed guidelines for the release of grants to the States. GPs were also permitted to spend up to 10% of the allocation towards administrative and technical components of O&M and capital expenditure.

The 14th FC prescribed the following two conditions for the performance grants which were applicable w.e.f. 2016-17:

- (i) Submission of audited annual accounts by *Gram Panchayats* that relate to a year not earlier than two years preceding the year in which the *Gram Panchayat* sought to claim the performance grant.
- (ii) Submission of audited accounts showing an increase in the own revenues over the preceding years.

In addition, the Ministry of Panchayati Raj prescribed the following mandatory criteria for the eligibility of the 14th FC performance grants for the 2017-18 to 2019-20 period:

- Completion of the *Gram Panchayat* Development Plan (GPDP) of the year of performance grants disbursement which was to be uploaded on Plan Plus Portal
- Display of sectorwise the 14th FC expenditure in Dashboard/Website URL of the Ministry of Panchayati Raj of the previous year to claim performance grants

Furthermore, the Ministry provided the following criteria for the eligible GPs through a scoring system.

- The Open Defecation Free (ODF) status of a GP in the previous financial year to the claim year of a performance grant
- Full immunization of 0-2 year age children in a GP in the previous financial year to the claim year of a performance grant.

Through performance grants, the 14th FC attempted to address the following issues:

- Making available reliable data on *Panchayats* receipts and expenditure through audited annual accounts; and
- Improvement in own revenues.

The performance grant was to be disbursed from the second year of the award period. That was 2016-17. The undisbursed amount was to be distributed equally among eligible *Gram Panchayats*.

The 14th FC strongly asked the Union and State Governments not to impose any other conditions for the release of funds.

The 14th FC urged State Governments to strengthen the SFCs through their timely constitution, proper administrative support and timely placement of the SFC report before the State Legislature with 'action taken report' (ATR).

The 14th FC recommended grants only for *Gram Panchayats* and ignored other levels. The 14th FC assumed that the State could take care of the needs of other levels. The inter se distribution of basic grants among *Gram Panchayats* was left to the respective SFC. In the absence of SFC formula for the purpose, the share of each *Gram Panchayats* was to be determined using 2011 population figures with a weight of 10 per cent.

The grant was to be spent on basic services assigned to *Gram Panchayats* under State legislation.

In addition, the 14th FC recommended a number of measures to strengthen the system of the own revenue collection of *Panchayats*.

Comments

Merits:

- a) The 14th FC also reinforced the need for better accounts maintenance and audit. It was recommended that the accounts should distinctly indicate revenues from own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the UFC and grants from other agencies. It also recommended the continuation of technical guidance and support arrangements provided by the CAG. Further, the 14th FC also retained the performance component of grants to address the following issues: (i) making available audited data on all *Panchayats* and (ii) improving own revenues of *Panchayats* (GoI, 2018)
- b) The 14th FC concluded that it was necessary to significantly enhance the resources to be transferred to *Panchayats* on an assured basis and mainly without imposition of conditions by Union or States. (Reddy, 2015)
- c) The grant recommended by the 14th FC for local governments was much higher than before, both in amount and in terms of the share of the divisible pool as mentioned in *Table 3.3*. In doing this, the 14th FC had set the bar much higher than the previous UFCs. While there was a demand from States and local governments to allocate at least 5% of the divisible pool to local governments, the 14th FC recommended a grant-in-aid for local governments close to an estimated 3% of the divisible pool. This was higher than the recommended allocation by the 13th FC. (Mehta and Mehta, 2015)

Demerits:

- a) The 14th FC broke the continuity and did not use the approach adopted by the 13th FC of recommending the local government grants as a share of the divisible pool. The 13th FC made it possible for the merits of the scheme which the 14th FC escaped and called the bold step unconstitutional. (Mehta and Mehta, 2015)
- b) The 14th FC gave up the practice of using an index or indices of devolution for the purpose of transfer of resources to States though widely accepted indices of devolution had already been computed through the Ministry of Panchayati Raj. The argument of the 14th FC that “there are several *practical difficulties*” in considering an appropriate index or indices for devolution, is untenable.
- c) While addressing Article 280 (3) bb, the 14th FC considered only *Gram Panchayats* and left the other two rungs i.e. District and Block *Panchayats*. While the Constitution prescribes three tier panchayat system including District and Block *Panchayats*, the recommendation seems inconsistent to the Constitution provision.

- d) Population and Area were the determinants in the IGFT to *Panchayats*. The emphasis of this kind appears to be seriously flawed as it completely ignores the fiscal capacity and fiscal efforts of *Panchayats* which vary considerably not only across States but even within the States. It neither serves the ends of equity nor efficiency. In fact, it does not require an expert body of the calibre of the UFC to suggest such neutral criteria which in the absence of any other objective criteria are perhaps the easiest way to divide resources among the States. The extension of this formula for further distribution within the State would mean treatment of the richer and poorer *Panchayats* on a par for the purpose of such a grant. While 'population' may be viewed as a safe and non-controversial factor, it hardly does any justice to the nature and characteristics of the population comprising *Panchayats* and its per capita income, capacity to pay for civic services and special advantages and disadvantages. In the interest of fairness and objectivity, population as a sole or strong factor should have been dispensed with. It could have been used as a scale factor in applying other criteria.
- e) The 14th FC has assigned weightage of 10% to Area in the distribution formula. It has been stated that the 14th FC recognized the fact that the cost of providing basic services in sparsely populated areas is relatively high and would necessitate giving weight to the expense of the States. It is not clear how a simple inclusion of the geographical area of the State meets the extra cost of providing basic services in the sparsely populated areas. If the 14th FC was indeed keen to consider the disadvantages of sparsely populated States, the population density of the State rather than the geographical area should have been the consideration. For, there are large States which do not have a problem of low population density while there are smaller States that have to contend with it. Assignment of weightage to the geographical area in absolute terms would mean that large States without this problem would also get a share of the grants under the criterion which can only be at the expense of States where this problem is acute. The 15th FC may, therefore, consider replacing the geographical area with the inverse of population density. This may, however, be weighted by the geographical area of the State so as to ensure fairness in relative distribution which should ultimately depend on the size of the State.

Table 3.5: Share of each State in total allocations for *Panchayats* by successive UFCs

Sl. No.	States	10th FC (1995-2000)	11th FC (2000-05)	12th FC (2005-10)	13th FC (2010-15)	14th FC (2015-20)
<i>General Category States</i>						
1.	Andhra Pradesh	8.01	9.50	7.94	8.29	4.32
2.	Bihar	11.58	9.81	8.12	7.86	10.49
3.	Chhattisgarh	0.00	0.00	3.08	2.65	2.62
4.	Goa	0.13	0.12	0.09	0.14	0.07
5.	Gujarat	4.38	4.35	4.66	3.70	4.31
6.	Haryana	1.89	1.84	1.94	1.72	1.94
7.	Jharkhand	0.00	0.00	2.41	2.41	3.02
8.	Karnataka	5.06	4.93	4.44	7.14	4.64
9.	Kerala	4.08	4.12	4.93	3.09	2.01
10.	Madhya Pradesh	7.96	8.94	8.32	6.52	6.77
11.	Maharashtra	7.92	8.21	9.92	8.72	7.51
12.	Odisha	4.59	4.32	4.02	4.11	4.42
13.	Punjab	2.36	1.93	1.62	1.78	2.04
14.	Rajasthan	4.84	6.14	6.15	6.25	6.81

15.	Tamilnadu	6.56	5.83	4.35	4.89	4.38
16	Telangana	0.00	0.00	0.00	0.00	2.68
17	Uttar Pradesh	17.34	16.49	14.64	15.52	17.86
18.	West Bengal	7.61	7.22	6.36	6.57	7.09
<i>North Eastern/Hill States</i>						
1	Arunachal Pradesh	0.10	0.35	0.34	0.43	0.41
2	Assam	3.04	2.92	2.63	2.50	2.70
3	Himachal Pradesh	0.73	0.82	0.74	0.88	0.90
4	Jammu & Kashmir	0.86	0.93	1.41	1.46	1.73
5	Manipur	0.21	0.23	0.23	0.35	0.10
6	Meghalaya	0.20	0.32	0.25	0.52	0.00
7	Mizoram	0.07	0.10	0.10	0.32	0.00
8	Nagaland	0.11	0.16	0.20	0.48	0.00
9	Sikkim	0.04	0.07	0.07	0.29	0.07
10.	Tripura	0.32	0.36	0.29	0.47	0.17
11	Uttarakhand	0.00	0.00	0.81	0.94	0.94
	All States	100.00	100.00	100.00	100.00	100.00

Source: Author's computation based upon various UFC Reports

0.00 - indicates that the State was not in existence or not carved out at that time.

3.6 Concluding Remarks:

So far, five UFCs have devolved grants for *Panchayats* and attempted to a) equalize basic civic services, b) provide incentives for strengthening accounts and audit and c) set rules to strengthen SFCs. The recommendations have been subject to considerable criticism mainly on the following grounds

- The grants provided are too small to make any difference to the functioning of about 2.5 lakh *Panchayats*.
- The formula used for the allocation among the States were needlessly complicated and proved to be ineffective in promoting the cause of decentralized governments.
- The contours of decentralization across the States have never been very clear and each UFC adopted an *ad hoc* approach that too of different varieties breaking the continuity.
- The UFCs attempted, though half-heartedly, to enhance the capacity of *Panchayats* in a supply-driven way. This supply-driven approach has not worked and is unlikely to make any impact in the near future when *Panchayats* themselves have no incentives to keep their own house in order and face the hard budget constraints.
- Relative shares of the States in the total grants allocation for *Panchayats* marked significant changes from the award period of one UFC to another. This shows the lack of seriousness on the part of UFCs.
- While addressing Article 280(3) bb of the Constitution, some UFCs considered only *Gram Panchayats* and left the other two rungs i.e. District and Block *Panchayats*. While the Constitution prescribes the three-tier *Panchayat* system, including District and Block, the

recommendations seem inconsistent with the constitutional provision. This has weakened both District and Block *Panchayats* in many States.

- All UFCs except the 13th Finance Commission ignored good practices in other federal countries with similar systems and institutions.

Many UFCs imposed conditionalities on *Panchayats* in the grants allocation and called them incentives. The intention was micro management. It failed as expected. Grants cannot be withheld if mandatory constitutional provisions are fulfilled. Grants could have been attached towards the fulfilment of Constitutional obligations imposed under the 73rd Amendment and strengthening the institutions such as SFCs, district and metropolitan planning committees and *Gram Sabha*.

RESTRICTED CIRCULATION

1. The first part of the document is a letter from the author to the editor of the journal. The letter discusses the author's motivation for writing the paper and the importance of the research.

2. The second part of the document is the abstract of the paper. It provides a brief summary of the research objectives, methods, results, and conclusions.

3. The third part of the document is the introduction. It provides a detailed overview of the research topic, the current state of knowledge, and the specific research questions that the paper addresses. It also outlines the structure of the paper and the contributions it makes to the field.

CHAPTER-4

State-Local Intergovernmental Fiscal Transfer (IGFT) in India: Identification of Indicators

The IGFT is an instrument of public policy and should be designed in terms of its potential effects on outcomes in future. A fundamental principle that guides the design of the IGFT is the objective of transfers and not to finance local government. For example, local public goods are to be rendered by *Panchayats* that have little fiscal capacity to fund them. But, for the sake of efficiency and constitutional mandate, if *Panchayats* are responsible for the provision of local public goods, the IGFT has to be designed for *Panchayats* with objective to enhance their fiscal capacity. Such design of the IGFT should take into considerations: a) adequacy of own revenue generation by *Panchayats*; b) accountability for results; and c) flexibility to make decisions.

Towards this direction, simplicity, objectivity and transparency are important characteristics in the IGFT design. The overall idea in the IGFT design is thus "to get the prices right" and making *Panchayats* fully accountable. (Bird, 1998)

Such an approach has to deal with some of the basic tasks that the 15th FC can undertake including the following:

- a) closing the fiscal gap of *Panchayats*;
- b) equalization of basic services, e.g. sanitation, drinking water, and rural roads;
- c) equalization of *Panchayats*' fiscal capacity;
- d) setting the national minimum goals.

A review of the available literature and SFCs' reports reveal that optimal design of IGFT take into considerations the following fiscal attributes:

- Fiscal Needs
- Fiscal Capacity
- Fiscal Effort
- Disability Factor
- Cost Disability and Need Disability

The Fiscal Needs of a government whether sub-national or local may be defined as the financial requirement to cover all expenditures responsibilities assigned to a sub-national or local at a standard level of service provision. There are many ways to measure fiscal needs across sub national/local governments.

Fiscal needs can be measured from the current expenditure level of sub-national/local governments or costing a standardized basket of sub-national services. This approach requires all kinds of information and explicit procedures to know all dimensions of the expenditure responsibilities. The fiscal needs so derived may not be affordable. Secondly, 'fiscal needs' can be measured through historical expenditures patterns with adjustment for inflation. Thirdly, an index can be constructed with factors representing demography, poverty, unemployment, cost of living etc.

Fiscal Capacity can be defined as the potential ability of the sub-national/local government in its jurisdiction to raise revenue and render local public goods to its residents. It plays a vital role in the IGFT design to local governments either from States or from the Union. Often, it is difficult to find good measures of 'fiscal capacity'. Many times, good revenue base of a jurisdiction and district GDP are considered good proxies for 'fiscal capacity'. (Boex and Vazquez, 1997) But, potential revenue collection of a good *Panchayats* revenue base is difficult to estimate. Similarly, district GDP data are not easy to compute.

Fiscal Effort can be described as the degree/extent to which a sub national or local government utilizes the revenue base available to it. The following factors affect level of 'Fiscal Efforts':

- a) Tax enforcement efforts exerted by State/local taxation authorities
- b) Tax Rate (if *Panchayats* having discretion over it);
- c) Level of exemptions granted (if *Panchayats* having discretion over tax structure)

Disability Factors: Sub-National government and local governments do not have the same financial capacity to provide the standard level of services to their citizens. Differences in their physical and economic circumstances and the characteristics of their population lead to differences in their relative costs of providing services and their relative revenue raising capacities. These sorts of differences- which are beyond the control of a sub-national and local government are termed as 'disabilities'. (Srivastava and Saraf, 2009)

This can be bifurcated into two factors namely: need/use disability and cost disability. Need disability reflects the differences between sub-national government or/and local governments in the use of services as a result of things such as population characteristics and availability of private

services. It can be a share of SCs/STs population, a share of population in aspirational district³ and others as such.

On the other hand, cost disability can be defined in terms of influences that affect cost per unit of service rendered to targeted group of citizens or places. For instance, higher cost might be incurred when services are being rendered in *Panchayats* falling in hilly or mountainous states, near jurisdiction of international boundaries, coastal and disaster prone areas and others as such.

Design as of the IGFT in several States; have undertaken *inter alia* the above considerations. These have been reflected in the reports of their SFCs which have been the main institution to design the IGFT in the States. The SFCs in general, have framed their recommendations on the basis of a review of the existing conditions at the State and local level. A glance through seventy plus reports reveals that SFCs have examined some common issues including a) State finances b) State revenue c) State expenditure d) finances of *Panchayats* and Municipalities e) fiscal domain of local governments f) resource requirements g) accounts and audit h) administrative structure i) procedural matters etc. Despite vast inter-state variations in SFC reports, the main recommendations of the SFCs can be grouped under the following six major heads 1) Global Sharing; 2) Horizontal Distribution; 3) Assignment of Revenues; 4) Grants in aid; 5) Functional and Functionaries; 6) Other Measures.

Each SFC has differently attempted the most critical function i.e. the decision with respect to Global Sharing and Horizontal Distribution. *Table 4.1* reveals wide variations across States in defining the divisible pool and the determinants of sharing among *Panchayats* and Municipalities. Indicators determining horizontal distributions are also shown in the Table.

³ The initiative launched under aegis of NITI Aayog to quickly and effectively for transforming selected districts.

Table 4.1: SFC Recommendations for share in State Resources

State Finance Commission	% of divisible pool	Share % of Panchayats and Municipalities	Basis of Distribution
Total Revenue of State			
Andhra Pradesh (I)	39.24	70 and 30	Development criteria
Arunachal Pradesh(I)	50.00	Not Mentioned	Population, Geographical area, own income efforts, distance from highest per capita income and composite index of backwardness.
Assam(I)	2.0	Not Mentioned	Population.
Goa (I)	36.0	75 and 25	Population, Geographical area, Performance
Own Revenue of States			
Andhra Pradesh(II)*	10.39*	65 and 35	Development Criteria
J & K (I)	13.5	67 and 33	Not Mentioned.
Kerala (I)	1.0	Not Mentioned	Population.
Karnataka (III)	30.0	70 and 30	Not Mentioned
Madhya Pradesh(I)	11.57	25.13 and 74.87	Population, area, tax efforts.
Odisha (II)	10.0	80 and 20	Population, density, number of holdings, revenue efforts
Sikkim(I)	1.0	100 and 0	U.L.B. does not exist in the state.
Sikkim (III)	2.0	Not Mentioned	Population, area of Panchayats
Sikkim (IV)	2.5	75 and 25	Population Census 2011
Uttarakhand(II)	10.0	60 and 40	Population, area, deprivation index, remoteness index, tax efforts.
Uttar Pradesh (I)	10.0	30 and 70	Population (80%); Area (20%).
Uttar Pradesh (II)	12.5	40 and 60	Population and area.
Uttar Pradesh (IV)	15.0	N.A.	Population, SC/ST Population, area, Per Capita Index, Establishment comfort backwardness Index, integrated development backwardness Index,
Non- Loan gross own revenue			
Karnataka (I)	36.0	85 and 15	For panchayats, population, area, index of decentralization and for U.L.Bs population 67% and illiteracy rate 33%[kar II has followed it]
Karnataka (II)	40.0	80 and 20	
State Own Taxes			
Assam(II)	3.5	Based on 1991 census	Population, area, Ner District Domestic product
Assam (IV)	15.0	Based on 2001 census	Population, area, Infrastructure Index
Bihar	7.5		
Chattisgarh(I)	4.79	Not Mentioned	Population
Goa(II)	2.0	Not Mentioned	Not Mentioned
Haryana(III)	4.0	65 and 35	Population, SC Population,
Haryana (IV)	2.5	65 and 35	Population Census 2011
Kerala (II)	9.0	78.5 and 21.5	Population
Kerala (III)	25.0#	Not Mentioned	Not Mentioned
Kerala (IV)	19.7	Population	Population, area, deprivation index, tax efforts

Madhya Pradesh (II)	4.0	77.33 and 26.67	Population
Maharashtra (II)	40.0	80 and 20	Distance from Highest Per Capita Income District, Backwardness, Population, Area, Proportion of Agricultural Income in Total Income of the District, Inverse Primary Income.
Odisha(III)	15.0	75 and 25	Expected Population 25.8 % and 29.17 % respectively.
Odisha(IV)	3.0	75 and 25	N.A
Punjab(II)	4.0	67.50 and 32.50	Population, per capita, revenue, SCs
Punjab(III)	4.0	34 and 66	Population
Rajasthan(I)	2.18	77.33 and 22.7	Population
Rajasthan (II)	2.25	76.6 and 23.4	Population
Rajasthan(III)	3.5	75.7 and 24.3	Population
Rajasthan(IV)	5	75.1 and 29.9	Population
Rajasthan(V)@	7.9	75.1 and 29.9	Population
Tamil Nadu(I)\$	8.0	60 and 40	Population
Tamil Nadu (II)	10.0	58 and 42	Population, SCs and STs, Per capita own revenue, area, asset maintenance, resource gap.
Tamil Nadu (III)	10.0	58 and 42	Population, resources, potential, needs
Tamil Nadu (IV)	10.0	56 and 44	Population SC/ST Population, Area
Tripura (I)	50.0	Not Mentioned	Population, Socio-economic backwardness
Tripura (II)	25.0	Not Mentioned	Population
Tripura (III)	20.0	Not Mentioned	Population
Uttarakhand(I)	11.0	42.23 and 57.77	Population and Distance from Rail Head
West Bengal (I)	16.0	Breakup as per population, district wise	Population and % of SC/ST, non literates
West Bengal(II)	16.0	Breakup as per population , district wise	Population 50 % and 7% to other variables, population density, SC/ST, non-literates, IMR, rural population per capita income
West Bengal (III)	2.0	Not Mentioned	Not Mentioned

Source: Updated from Alok (2014)

Notes: \$ In Tamil Nadu, the divisible pool called pool B consists of sales tax, motor vehicle tax, state excise revenue and other state taxes. The other pool A consists of levies, which rightly belong to local governments i.e. surcharge on stamp duties, local cess and local cess surcharge and entertainment tax. The entire proceeds of pool A taxes are recommended to be distributed to the local governments.

* Second SFC of Andhra Pradesh recommended 10.39% share as additional devolution over and above the existing annual devolution.

25 (Twenty five) per cent of the total State Tax revenue of the year 2003-04 may be transferred to Local Self Governments (LSGs) during the year 2006-07. During each of the four subsequent years amounts derived by applying annual growth of 10 (ten) percent (which would accommodate reasonable rates of inflation and real growth) may be so transferred.

@ It has excluded Entry tax and Land revenue

In order to allocate resources to all three rungs of *Panchayats* and three levels of municipalities in the States, the SFCs of all generations used several indicators reflecting a combination of attributes including fiscal needs, fiscal capacity, fiscal efforts, cost disabilities, etc. The most common determinants employed in several States are mentioned in Table- 4.2.

Table 4.2 Major Criteria Used by SFCs for fiscal transfers to Local Governments

S. N.	State	SFC	Criteria						
			Popul ation	SC/ST Popula tion	Other Populatio n (AAY/BP L/Rural etc)	Ar ea	Litera cy/ Non Litera cy	Back ward ness	Other Measures
1	Andhra Pradesh	I	√			√			
		II							
		III	√						
2	Arunachal Pradesh	I	√				√	Own Income Effort, Distance from highest per capita income	
3	Assam	I							Share of motor vehicle tax for rural areas on the basis of population of each rural local body as per latest census.
		II							
		III	√			√			Per Capita District Domestic Product, Net of mining & quarrying
		IV							
4	Bihar	IV	√		√				
		V	√			√			Under Development Index
5	Goa	I	√			√		√	Performance, Discretionary Quota
		II							
6	Gujarat	I							
		II							Income from professional tax should be shared between Municipalities and <i>Panchayats</i> on the basis of rural and urban population ratio i.e. 67% and 33%.
7	Haryana	I	√						Performance
		II							
		III	√		√	√	√		
		IV	√		√	√	√		Gender Sex Ratio
8	Himachal Pradesh	I							
		II							

		III								
		IV								
9	J&K	I								
10	Karnataka	I								
		II								
		III	√	√		√	√			
11	Kerala	I	√	√					Tax Effort, Financial Need	
		II								
		III								
		IV	√				√		Tax Effort, Deprivation Effect	
12	Madhya Pradesh	I	√	√			√	√	Number of agricultural labourers, Average Gross value of output of Agriculture per hectare	
		II	√							
		III	√							
13	Maharashtra	I							Per Capita Basis	
		II								
		III								
14	Manipur	I	√							
		II	√				√		Distance from the State Capital	
15	Odisha	I	√				√		Rural Connectivity	
		II	x							
		III	x							
		IV	x							
16	Punjab	I	x							
		II	x							
		III	√							
17	Rajasthan	I	√						Incidence of Poverty ²	
		II	√				√	√	Poverty	
		III	√	√			√	√	Poverty (No. of BPL Families)	
		IV	√	√			√	√	Poverty (No. of BPL Families), Child Sex Ratio, Decline in decadal population growth 2001-11 over 1991-2001. Girl Education, Infant Mortality Rate, Own Revenue Mobilization	

			√	√	√	√	√	√	Poverty (No. of BPL Families), Child Sex Ratio, Decline in decadal population growth 2001-11 over 1991-2001. Girl Education, Infant Mortality Rate, Own Revenue Mobilization
18	Sikkim	I							
		II							
		III							
		IV							
19	Tamil Nadu	I	√	√					PU(Population SC/ST Pop, Financial viability of the Panchayat Union, ((Average per capita Land Revenue)), VP (Per capita House Tax collection performance, d) Core Civic Services Infrastructure maintenance)
		II	√	√			√		Agricultural Laborers, Resource Gap on inverse per capita land revenue, Asset Maintenance
		III	√	√		√ (Women)	√		
		IV							
20	Tripura	I	√						√
		II							
		III	√						
21	Uttar Pradesh	I	√					√	
		II	√	√				√	Composite District Level Index (population (R) 2001, SC/ST Population(R) 1991, Area (Rural), 1998, Socio-economic Backwardness, Inverse of Gross value of agricultural output per person (Rural), Average for 1997-2000, Educational Backwardness (illiterate rural population), 2001, Medical Facilities (Inverse of No. of Beds in PHCs per lakh of rural population) 1997-98, Tax Effort (share in total own revenue of all PRIs), Average for 1997-2000
		III	√	√					District Integrated Development Index, Revenue Effort

		IV	√	√		√		Integrated Development Backwardness Index
22	Uttarakhand	I						
		II	√				√	Deprivation Index, Remoteness Index, Tax Effort
		III	√				√	Remoteness, (No. of GPs just for KP)
23	West Bengal	I	√				√	Criteria for distribution between districts covers population, level of non literacy, proportion of backward population, area of the district, proportion of rural population, and inverse ratio of per capita bank deposits and of working capital of primary agriculture cooperatives taken together
		II						
		III						

Source: Author

Notes:

1) No. of workers in registered factories Per lakh of population, Per Capita Consumption of Power, Literacy rate

2) Number of poor families identified by DRDAs in their surveys of 1992

3) √ denotes that particular criteria has been considered by SFC

4) × denotes that particular criteria has not been considered by SFC

5) Here I, II, III, IV & V denotes First, Second, Third, Fourth & Fifth State Finance Commission of a particular State respectively.

4.1 Indicators used by States

A brief analysis of **Some Indicators used by States** in their IGFT to local governments is given below:

1. Population: Population has been serving as a robust parameter in the IGFT deciding shares for the sub-national or local governments. It is a simple, objective, transparent, predictable and universally accepted determinant. In general, the indicator reflects that the fiscal need of a jurisdiction is directly proportionate to the number of its inhabitants who need public goods and services. Since these services are to be provided to the entire population within the jurisdiction, the data for this indicator can be obtained using Census of India, 2011. It is decadal in periodicity.

The indicator ensures equal per capita transfers to all sub-national/local governments. The weight assigned to this indicator varied in the past by successive UFCs in their formula both for the States and local governments. However, population remains a strong factor in other indicators such as 'distance'. By assigning additional weights to scheduled caste/scheduled tribe and migration "an element of equity" can also be introduced within this indicator (*GoI 2014, p 91*). The indicator is comparable across States and time and has been suggested by various States to the 12th, 13th, and 14th FC in their memoranda. All States and SFCs of all

generations used this indicator in the IGFT from State to local governments. All the selected federal countries considered for the study used the indicator for the IGFT to their local governments.

The 14th FC prominently used this indicator for horizontal distribution of local government grants to States. The same formula could be used for *inter se* allocation to *Panchayats* and Municipalities within the State, in the absence of any formula by the State or SFC.

2. Area: Like 'population', 'area' has also been used as a strong indicator in the IGFT to decide quantum of intergovernmental fiscal transfers from one level of government to another. Likewise, the indicator is simple, objective, transparent, predictable and universally accepted. In order to deal with article 280 (3) bb, the indicator was first employed by the 10th FC to determine share of States for local governments. Under this, larger area with same population has to incur additional administrative costs to deliver comparable standard of services to its residents⁴. The differences in the costs for providing services increase with the increase in area "*but only at a decreasing rate and that beyond a point incremental costs may become negligible.*" (GoI, 2009, p 119).

The States in India vary in topography and other biological characteristics. The areas such as hilly, desert, forest etc. face many challenges for their developmental needs and economic growth e.g. parts of Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand. By assigning additional weights to hilly area, deserted area, forest area etc 'cost disability factor' can also be introduced within this indicator

The data for this indicator can be taken from Census of India, 2011 and it is decadal in periodicity. The indicator has been suggested by various States to the 12thFC, 13thFC, and 14th FC in their memoranda. Some of the sample federal countries taken in this report, such as Argentina, Australia, and Germany also used the indicator for transfer of resources to their local governments. Among others as mentioned above, the indicator reflects; 'fiscal need' and 'cost disability' factors and is comparable across States and time.

3. Tax Effort: "Tax effort" is one of the major indicators used in the process of the IGFT. It represents the relationship between the actual revenue and the tax capacity of an economy⁵. It describes a degree to which a sub national or local government utilizes the revenue base available to it. It is one of the most significant variables to measure the 'fiscal capacity' and 'fiscal effort' of the State.

The 11th FC and the SFC I and IV of the Kerala, SFC II of Uttarakhand, and SFC II of Uttar Pradesh employed 'tax effort' as an indicator to transfer the funds to local governments both Municipalities and *Panchayats*. Two of the sample federal countries namely Canada and Germany used the indicator for transferring funds to local governments.

Data for this indicator can be taken from the State government for the tax handles assigned to local governments. However, a number of variables such as, level of economic activities of a State, wholesale price index, per capita income, and relative level of development can

⁴ Government of India, 2009

⁵ Pessino and Fenocietto (2010), Determining Countries "Tax Effort"

also be used to measure tax efforts⁶. This indicator was suggested by a number of States to the 12th FC and 13th FC in their memoranda. Among others, the indicator reflects the 'fiscal capacity' and 'fiscal efforts' of the State. It is comparable across States and time.

4. Fiscal Discipline: Fiscal discipline as an indicator was used to incentivize the sub-national government to manage their finances prudently. The fiscal discipline is described as the ratio of 'own revenue receipts' of a State to its 'total revenue expenditure' to average ratio across all the States. The indicator is based on own revenue receipts of a sub national and local government. It is believed that the fiscal imbalances of sub national or local governments can be resolved through better financial management. The 13th FC in its report explains the direct relationship between fiscal discipline and fiscal transfer.⁷ However, if the ratio deteriorates in all States, the State with lower reduction than the average receives higher transfers. The data for this criterion can be obtained from State government budget under budget head 3604. It is annual in periodicity. The indicator is suggested by various States to the 12th and 14th FC in their memoranda. Among others, the indicator reflects the 'fiscal efforts' of a jurisdiction and is comparable across States and time.

5. Distance from Highest per Capita Income (DHPI_{pc}): Income distance is one of the significant indicators in the determination of the share of each State for local governments in the central pool. It is the distance of the Gross State Domestic Product (GSDP) of a particular State from the highest GSDP State. Income distance is determined as the difference between three years average GSDP for each State with respect to the State with highest per capita GSDP⁸.

The data for this indicator can be obtained by Central Statistics Organization (CSO) and it is annual in periodicity. It is believed that devolution to local governments is a costly proposition and can be afforded by rich States. Hence, the indicator can be used in the IGFT process to States for local governments. Among the sample federal countries, Argentina employed this indicator for the IGFT to local governments. Among others, the indicator reflects the 'fiscal capacity' and 'fiscal effort' of a jurisdiction. It is comparable across States and time.

6. Incidence of Poverty (PI): Poverty incidence can be defined as the numbers of families/individuals with per capita income/expenditure less than the per capita poverty threshold to the total number of families/individuals in a State/district/block/village. It is believed that the vicious circle of poverty is a major impediment for economic growth and development of any jurisdiction. Incidence of poverty can be a good factor to measure the 'fiscal need'. Almost all SFCs in Rajasthan, i.e. SFC I, II, III, IV and V utilized the indicator as a measure to transfer resources to the local governments. Some federal countries namely Argentina, Australia, and South Africa used the indicator for the IGFT to local governments. The data to estimate this indicator can be taken from NSSO (National Sample Survey Organization) which is annual in periodicity. The indicator is suggested by various States to the 12th and 14th FC in their memoranda. Among others, the indicator reflects the 'need

⁶ Sacchidananda Mukherjee (2017), Changing Tax Capacity and Tax Effort of Indian States in the Era of High Economic Growth 2001-2014

⁷ Government of India, 2009

⁸ NITI Brief (2015-16) National Development Agenda, 14th FC & Union Budget 2015-16

disability' and 'cost disability' of a jurisdiction. The indicator is comparable across States and time.

7. Own Revenue Mobilization (ORM): Own Revenue Mobilization describes the generation of government revenue from own sources, including taxes and non-taxes (royalties, licenses, levies or other income). It provides additional space to match budget expenditures and foster ownership. It negatively impacts the dependency on external assistance.

ORM is a quantitative indicator that directly impacts the fiscal capacity of any government. This indicator can be estimated by using the data from either the budget documents or finance accounts of State governments. The data from both sources are annual in periodicity. The SFC IV and V report of Rajasthan adopted it as one of criteria for devolution. Two of the federal countries considered in this report i.e. Brazil and South Africa employed the indicator for the IGFT to local governments. Among others, the indicator reflects the 'fiscal capacity' and 'fiscal effort' of a jurisdiction. It is comparable across States and time.

8. Socio-Economic Backwardness (SEB): Socio-economic backwardness shows lack of social and economic development in a society. In the socio-economic context, development means the improvement in the standard of people's living through improved education, incomes, skill development and employment.

SEB can be measured through a combination of factors including low level of GDP growth, low level of life expectancy, literacy and employment. All these variables can be estimated by using the data from different sources such as Ministry of Statistics and Program Implementation (MOSPI), Census of India, NSSO, and Ministry of Labor and Employment. All these data sources except Census, are annual in periodicity. It reflects the 'need disability' and was employed by the IInd SFC of Uttar Pradesh. The indicator is comparable across States and time.

9. Per-capita District Domestic Product (DDP_{pc}): Income of a district is one of the most important quantitative indicators to measure the economic growth and development of a district. The district income is defined as the sum of economic value of all goods and services produced within the district irrespective of the person owing the income, is inside the district or outside. It can be calculated as:

$$DDP_{pc} = \frac{\text{Sum of economic value of all goods and services produced within the district}}{\text{Estimated mid-year population}}$$

In the current economic scenario of the country, DDP gains a lot of importance to measure the economic growth⁹. States including Assam, Karnataka and Maharashtra calculate their DDP to measure the economic contribution of the districts. It is obtained by dividing the total value of product of the district by its estimated mid-year population.

Per-capita District Domestic Product is one of the major indicators employed by the Assam SFC III (2006-11). The data for this indicator can be easily obtained from Directorate of Economics & Statistics of different States and it is annual in periodicity. Among others, the

⁹ Government Of Maharashtra, District Domestic Product of Maharashtra, 2004-05 To 2013-14

indicator reflects the 'need disability', and 'fiscal needs' of a jurisdiction. The indicator is comparable across States and time.

10. Inverse of Gross value of Agriculture output per person (IGVAO_{pp}): IGVAO_{pp} represents the relative deficiency in agriculture sector. The indicator was employed to allocate sufficient fiscal resources to the agriculture sector with low fiscal capacity. It can be easily measured by using the data from Ministry of Agriculture & Farmers Welfare Department of Agriculture, Cooperation & Farmers Welfare. Among others, the indicator reflects 'fiscal capacity' and 'need disability'. The indicator is comparable across States.

11. Proportion of Agricultural Income in Total Income of the District (PAITID): PAITID measures the contribution of the Agriculture sector in the district GDP. This indicator was employed by the IInd SFC of Maharashtra to devolve funds to local governments. The data for this indicator can be easily obtained from the States and 'National Sample Survey'. Among others, the indicator reflects 'fiscal capacity' and 'fiscal efforts' and is comparable across States and time.

12. Number of Agriculture Labor (NAL): The Planning Commission of India in its 4th Plan had advised the State governments to pay special attention towards area development. The report defined backward area on the basis of five indicators namely,

- a) Desert areas
- b) Chronically drought affected areas
- c) Hill areas including border areas
- d) Areas with high concentration of tribal population
- e) Areas with high density of population with low levels of income, employment and living etc.

In order to analyze the above indicators, the Commission constituted a study group that recommended Number of Agriculture Labor (NAL) as an indicator for transfers of resources to a jurisdiction. The indicator was used by the 1st SFC of Madhya Pradesh to measure the fiscal need of the local government. The data to estimate this indicator can be obtained from the Census of India and as mentioned above, it is decadal in periodicity. The indicator reflects, inter alia, the 'need disability' and 'fiscal capacity'. This is comparable across States.

13. Inverse Primary Income: The inverse primary income indicator is based on the relative deficiencies in fiscal capacities of the States. It is intended to allocate higher per-capita transfers to a jurisdiction with low fiscal capacity. The data to estimate this indicator can be obtained from Reserve Bank of India and it is annual in periodicity. The indicator, among others, reflects the 'fiscal capacity' and is comparable across States and time.

14. Rural Connectivity: Rural connectivity is one of the crucial components for rural development in India. It contributes in improving the agricultural income and productive employment opportunities by connecting through rural roads. It also enhances the access to economic and social services. The 1st SFC of Odisha used the indicator in its formula for distribution of funds to local governments. The data for this indicator can be obtained from the Ministry of Rural Development and it is annual in periodicity. Among others, the indicator reflects the 'fiscal capacity' and is comparable across time but not across States.

15. Decline in decadal population growth (DDPG): The percentage of decadal growth during 2001-2011 has experienced the sharpest decrease in the population growth rate. It was the first time, since independence, that the growth rate has declined to below 20 per cent and the absolute growth of the population was less than the previous decade. The decline in decadal population growth was one of the criteria employed by the 4th and 5th SFC of Rajasthan in their formula for allocating resources to local governments. The data for this indicator can be obtained from Census of India and it is decadal in periodicity. The indicator reflects the 'need disability' of a jurisdiction and is comparable across States and time over decades.

16. Gender Ratio: Gender ratio is measured as the number of females per 1000 males in the total population. Gender ratio is an important social quantitative indicator to measure the extent of prevailing inequality between males and females in a society at a given point of time. The data for this indicator can be taken from the Census of India and MOSPI. The periodicity of Census data is decadal but the data from MOSPI is revised annually. The gender ratio is expected to be almost at parity in nature. Gender differential in mortality, sex selective outmigration, skewed gender ratio at birth are the major contributory factors that influence changes in gender ratio.

Haryana shows a major problem of inequality due to very poor gender ratio. In order to eliminate this inequality and to promote efficiency, the 4th SFC of Haryana employed gender ratio as an indicator for distribution of resources among *Panchayats*. Among others, the indicator reflects the 'need disability' of State. The indicator is comparable across States and time.

17. Girl Education: Education is a necessary component for growth of a developing country like India. Free and compulsory education is stipulated under Article 21A of the Constitution for children between 6-14 years of age in India. Though free and compulsory education is the fundamental right, evidence from States show large disparity in enrolment of children in schools especially a girl child.

Girl's education is a key component in country's strategic development process that goes beyond enrollment of girl child into the school. It mainly consists of both learning and safety of girls in school premises. It ensures effective skills to girl child enabling her to compete in labor market. It also inculcates decision making and life skills among girls to promote their contribution in the world positively. It is a fact that educated women tend to adapt a healthier life, more participative and productive in labor market, marry at a later age and have fewer children. The indicator can be calculated by utilizing the data from NITI Aayog and MHRD. The data is annual in periodicity. The 4th SFC of Rajasthan adopted the indicator as criterion, among others, to distribute resources to local governments. The indicator reflects 'need disability' and is comparable across States and time.

18. Educational Backwardness (ED): In order to plan and allocate funds for higher education, the II SFC of Uttar Pradesh measures the educational backwardness. Educational Backwardness reflects the 'need disability' of the State. The data for this indicator can be obtained from the Census of India and it is decadal in periodicity. Except Germany, all sample federal countries considered in this report used the indicator for the IGFT to local

governments. The indicator, among others, reflects the 'need disability' and is comparable across States and time.

19. Infant Mortality Rate (IMR): Infant mortality rate (IMR) can be defined as the probability of dying of a baby before one year of age per 1000 live-births. IMR is one of the sensitive quantitative indicators of living and socioeconomic conditions of a State. This indicator can be estimated by utilizing the data from Sample Registrations System, Ministry of Health and Department of Welfare. Data from both these sources are revised annually. Several National Governments and international organizations have intensified their efforts to reduce the level of infant mortality. The 4th and 5th SFC of Rajasthan employed this indicator for distribution of resources to local governments. Argentina and Brazil used the indicator for the IGFT to local governments. The indicator, among others, reflects 'need disability' of a jurisdiction. It is comparable across States and time.

Table 4.3: Indicators identified by States and their Attributes

Indicator	Fiscal Capacity	Fiscal Effort	Need Disability	Cost Disability
Population			√	
Area				√
Tax Effort	√	√		
Fiscal Discipline		√		
Distance from Highest per Capita Income	√	√	√	
Incidence of Poverty			√	√
Own Revenue Mobilization	√	√		
Socio-Economic Backwardness			√	
Per-capita District Domestic Product	√	√	√	
Inverse of Gross value of Agriculture output per person	√		√	
Proportion of Agricultural Income in Total Income of the District	√	√		
Number of Agriculture Labour	√		√	
Inverse Primary Income	√		√	√
Rural Connectivity	√			
Decline in decadal population growth			√	
Gender Sex Ratio			√	
Girl Education			√	
Educational Backwardness			√	

Infant Mortality Rate			√	
Medical Facility/MF (Inverse number of beds per lakh of rural population in PHC)			√	
Core Civic Services Infrastructure Maintenance			√	√

Source: Author

20. Medical Facility/MF (Inverse number of beds per lakh of rural population in PHC): MF is one of the major requirements to have sufficient level of healthy human capital that is the key factor in the production process and production is the pre-condition for economic development. A sufficient level of 'health facility' can lead a significant level of healthy human capital. For the purpose, primary health care (PHC) serves as the foundation. In order to assess the effectiveness of the health system in a jurisdiction, one can calculate the number of beds per lakh of population. Medical facility in terms of inverse numbers of beds per lakh of population in PHC represents the 'need' of the jurisdiction. The data for this indicator can be taken from Ministry of Health and Family Welfare (MHWF), National Family Health Survey, and District Family Health Survey. Except from NFHS (having 3 years periodicity), the data from other sources are annual in periodicity. Medical facility as an indicator was adopted by the II SFC of Uttar Pradesh. Argentina, Australia, Brazil, and South Africa used the indicator for the IGFT to local government. The indicator, among others, reflects 'need disability' and is comparable across States and time.

21. Core Civic Services Infrastructure Maintenance (CCSIM): CCSIM refers to the provision and maintenance of core civic services such as, provision of primary education, primary health care, safe drinking water, street light and sanitation including drainage and scavenging facility, maintenance of cremation and burial land, public convenience and other common property resources. The indicator can be estimated by utilizing the data from NSSO, MHFW and Census of India. Except Census, the data from both sources are annual in periodicity. The indicator is suggested by various States to the 14th FC in their memoranda. Canada and South Africa employed the indicator for the IGFT to local governments. The indicator reflects 'need disability' of the State and is comparable across States and time.

4.2 The IGFT to Local Governments: Some Indices identified by States

In addition to the above mentioned indicators. Few indices have also been constructed and used for the IGFT. These are given below.

- 1. Index of Deprivation:** The index of deprivation is calculated on the basis of lack of basic services such as safe drinking water, lack of latrines within the household and lack of access to good sanitation facilities. The index of deprivation helps to assess the 'intra-State disparities' in drinking water and sanitation services performed by the local governments,

both rural and urban. In order to compute the index, state-wise census 2011 data (having decadal periodicity) are available for rural and urban areas regarding the number of households fetching water from a distance i.e. over 100 meters in the case of urban and 500 meters in the case of rural households, households with no latrines within the house premises and households with no drainage facilities of waste water. These variables are used to construct the index

Table 4.4: Some of the Major Indices by States and their Attributes

Index	Fiscal Capacity	Fiscal Effort	Need Disability	Cost Disability
Index of Deprivation			√	
District Integrated Development Index	√			
Under Development Index			√	
Integrated Development Backwardness Index			√	
Remoteness Index			√	√
Index of Decentralization	√	√		

Source: Author

The 12th FC used the 'index of deprivation' in its formula to devolve funds to States for *Panchayats* and Municipalities. The 'deprivation index' was adopted as one of the criteria by the 4th SFC of Kerala. The indicator was suggested by various States to the 13th and 14th FC in their memoranda. The indicator, among others, reflects 'need disability'. It is comparable across States and time.

2. **District Integrated Development Index:** The index computes district's ability to improve its social and environmental health which is a key function for macroeconomic environment, microeconomic foundations for firms and individual. It presents an integrated system of the following three elements:
 - a. Attitudes towards competitiveness, growth and relative global excellence;
 - b. Investments in education, research and development and commercialization;
 - c. Motivations for hiring, working and upgrading.

Data for this indicator can be obtained from the Census of India, 2011 and it is decadal in periodicity. The index measures the ability of a district to improve its social and environment health. Hence, it can be used, *inter alia*, to calculate district's 'fiscal capacity'. The index was employed by the 3rd SFC of Uttar Pradesh and is comparable across States and time.

3. **Under Development Index (UDI):** UDI is referred as a composite index. A committee headed by Dr. Raghuram G Rajan, constituted in September 2013, developed a 'composite development index' of States which was also considered a new index of backwardness to determine which State needs special assistance.

The underdevelopment index is calculated by combining the following ten subcomponents: (i) monthly per capita consumption expenditure, not the income per head (ii) education, (iii) health measured in terms of single indicator, infant mortality rate (IMR), (iv) household amenities, that are defined as a weighted average of the number of households having electricity, drinking water, sanitation etc. (v) poverty rate, as calculated by the Planning

Commission (vi) female literacy from census, (vii) percent of SC-ST population, from Census, (viii) urbanization rate from census,, (viii) financial inclusion (RBI data), and (x) connectivity that is measured as an average of indicators such as length of highways, rail route. Except Census the data from other sources are published annually.

The State that scores maximum points in UDI is treated as less developed. Adoption of maximum marks faces a huge amount of criticism as developed States score low. According to Human Development Report (2013), the use of expenditure rather than income as a criterion is quite inappropriate. But the Committee argues that consumption expenditures efficiently measure the well-being of average individual in the State, which the UDI have captured¹⁰. The 5th SFC of Bihar adopted UDI to promote equity and efficiency in the State. By calculating the UDI, one can assess the 'need disability' of the State. The index is comparable across States and time.

4. **Integrated Development Backwardness Index:** IDBI presents the gap in development level of districts. Backwardness is simply conceptualized as an antonym of development. Development backwardness is a relative concept; hence, backwardness of a particular region (e.g. districts) is analyzed in comparison to other regions. The IDBI depicts the existing variations in the development and captures deficiency in capacity that hinders the process of economic development and regenerates disparities in districts¹¹. The data for variables of this index can be obtained from the Census of India, 2011 and it is decadal in periodicity. Among others, the index reflects the 'need disability' and is comparable across States and time.
5. **Remoteness Index (RI):** The Remoteness Index can be defined as the magnitude of burden, measured in terms of time to travel by an average vehicle, to have access to a range of functions and services in public and private sector. It is a quantitative index and was used by the 2nd SFC of Uttarakhand. However, the SFC of Uttarakhand does not provide any clarity on RI parameters such as, number of villages having post office, public telephone and bus stop. Due to this index, the devolution formula of the 2nd SFC of Uttarakhand became complex and failed the simplicity test. Among others, the index reflects the 'cost disability'. The indicator is comparable across States and time. This Index may help to improve the access to the local services and opportunity. Due to complexity in its measurement the 3rd SFC of Uttarakhand dropped the index and considered remoteness as an indicator instead of the index.
6. **Index of Decentralization:** The decentralization index measures degree of fiscal, political, and administrative responsibilities to local governments¹² by States. In order to construct the index, the 11th FC considered the following ten parameter:
 - Enactment/amendment of the State/ *Panchayats*/municipal legislation;
 - Intervention/restriction in the functioning of the local governments
 - Assignment of functions to the local governments by state legislation;
 - Actual transfer of functions to these governments by way of rules, notification and orders;

¹⁰ Government Of India, (2013) Report Of The Committee For Evolving a Composite Development Index of States,

¹¹ Verma and Tiwari, (2017), Development of Composite Indicator to Measure Backwardness of District in UP, Giri Institute of Development Studies

¹² Christine Kearney (1999), Decentralization Index, December 30,1999

- Assignment of power of taxation to the local governments
- Extent of exercise of taxation powers;
- Constitution of the SFCs and the submission of action taken on their reports;
- Action taken on the major recommendations of the SFC;
- Elections to the local bodies;
- Constitution of the district planning committees as per the letter and spirit of article 243ZD.

As mentioned in the previous chapter of the report that 'index of decentralization' was criticized by many as not a good criteria for devolving funds to *Panchayats* on the ground that decentralization in a particular State largely depends on the political ideology of ruling party. The *Panchayats* should not be punished for the anti-decentralization stand of the State Governments.

The 'index of decentralization' with few indicators was considered rudimentary. One of the components of index of decentralization is 'assignment of taxation power to 'village *Panchayat*' and ignored the other rungs of *Panchayats* (Intermediate and District) instead of the fact that these two levels of *Panchayats* are more infrastructural endowed (*Pal, 2000*). Moreover, the index does not fully capture the actual closeness of local governments to people¹³. The index was suggested by various States to the 13th and 14th FC in their memoranda. The index reflects 'fiscal capacity' and 'fiscal effort' and is comparable across States and time.

4.3 Devolution Index

Devolution Index: The index is based on a study conducted every year by the Ministry of Panchayati Raj to assess the enabling environment that the States had created for the *Panchayats* to function as institutions of self-government. The enabling environment created by a State is compared with that of others in terms of various monitorable indicators identified in the study. At the initial stage, the analysis tests whether States had fulfilled the five mandatory provisions of the Constitution. These provisions were listed under the first dimension of the index, i.e. 'Framework'. The first stage shortlists States that pass all five criteria. At the second stage, the indices were calculated by assigning scores to all indicators including the five provisions reflecting mandatory provisions of the Constitution. The following table gives a picture of the indicators considered for the index.

Panchayat Devolution Index: Dimensions and Indicators

Framework

- *Panchayat* Elections [Art 243 K]
- Dissolution and Bye Election [Art 243 E]
- Constitution and Function of District Planning Committee [Art 243 ZD]
- State Finance Commission(SFC) [Art 243 I]
- Reservation of seats for SCs/STs and women [Art 243 D]

¹³ Ivanyna and Shah (2012), How Close is Your Government to its People, World Bank.

Functions

- Role of *Panchayats* in Parallel Bodies/Institutions
- Autonomy to *Panchayats*
- Functions Assigned to *Panchayats* and Actual Involvement of *Panchayats*
- Involvement of *Panchayats* in Important Schemes and Scheme Based Performance Measures

Finances

- Union Finance Commission Grants to *Panchayats*
- Money Transferred to *Panchayats* on account of SFC recommendations
- Empowerment of *Panchayats* to impose and collect revenue
- GST Implications on *Panchayats*
- Fund available with *Panchayats*
- Expenditure of *Panchayats*

Functionaries

- *Panchayat* Officials
- e-Connectivity and ICT Measures Taken
- Infrastructure of *Panchayats* (Physical and Digital)

Accountability

- Gram Sabha
- Budget, Accounting and Audit
- Social Audit and DISHA Committee
- Gram *Panchayat* Development Plan (GPDP)
- Transparency and Anti- Corruption
- *Panchayat* Assessment and Incentivization

Capacity Building

- Training Institutions
- Training Activities

Each State government provided the data through a structured questionnaire. The data was verified from the field through a sample survey method. The sub indices and composite devolution index were used to provide cash awards to high ranked States by the Prime Minister on *Panchayat* Day, i.e. 24 April every year since 2009. The Indian Institute of Public Administration prepared the concept paper and computed the index for five years during 2009-14. It may be noted that the Devolution Index was not available in 2008 for the 13th FC and the Commission had to construct its own Devolution Index based on secondary data from the Finance Accounts.

1. **Holding Regular Panchayat Election:** Elections are one of the essential constituent of democracy. The decentralization of power aims for greater administrative efficiency by conducting elections of three tier of government at regular interval of time. Hence, organizing *Panchayat* election in every five years is an essential condition to provide an efficient framework of well-functioning of local governments. The processes of election at all levels i.e. parliamentary, assembly and *Panchayat* must be the same. Holding regular election is one of the essential indicators of the constitutional framework under which local governments function. The data for this indicator can be easily taken from the State Government or State Election Commission of different States. The periodicity of data is five years. The indicator is comparable across States.

2. **District Planning Committee and Their Working:** Article 243ZD of the Constitution stipulates a mandatory 'District Planning Committee (DPC)' in every district. DPC ensures proper implementation of development plan and improvement in the efficient working of local governments. DPC plays a vital role in consolidating the plans prepared by the *Panchayats* and the municipalities in the district. Among others, DPC can play major roles in the following:

- a) Matters of mutual common importance between the municipal bodies and the *Panchayats*; Planning according to spatial particularity;
- b) Sharing of water and other physical and natural resources;
- c) Integrated development of infrastructure and environmental conservation;
- d) Extent and type of available resources whether financial or otherwise;

The data for this indicator can be obtained from State Governments and it is annual in periodicity. Among others, the indicator reflects 'fiscal capacity' and is comparable across States.

3. **Autonomy to Panchayat:** Mahatma Gandhi called *Panchayats* as the foundation point of Indian political system and must be strengthened to provide a basis to the political system. The term for such a vision was '*Gram Swaraj*' and 'village republic'. The vision was embedded in the 73rd Constitution Amendment Act and autonomy to *Panchayats* was enshrined in Part IX of the Constitution. Accordingly, States enacted their conformity Acts. However, in practice some States weakened the autonomy of *Panchayats* by making them subservient to the field level functionaries of the State administration. They have been assigned the power to dismiss the elected representative or dissolve the *Panchayat*. Ideally, such powers need to be assigned to State Assembly or State Government. This indicator reflects the strength or 'fiscal capacity' of *Panchayats* in the State and comparable across States.

4. **Reservation of Seats for SC/ST & Women:** Article 243 D stipulates equal and fair representation of every section of society in political system through reservation of seats for SCs/STs & women. Hence, to ensure the participation of disadvantaged group of society, each 'conformity Act' in the State provides the proportion of seats at all levels to be reserved for women, SCs and STs. Since Article 243 D is the mandatory provision, this indicator is provided in the 'Framework Dimension' of the 'Devolution Index' and used at the first stage to qualify or disqualify the State government for further consideration and no weight was assigned to it. The data for this indicator can be obtained from the State *Panchayat* Acts and State governments. It is annual in periodicity

5. **State Finance Commission:** Article 243-I of Constitution stipulates that the Governor of the State should set up a Finance Commission, at the expiration of every fifth year. The SFC plays a vital role in reviewing and improving the financial position of *Panchayats* and in making recommendations to the Governor. In practice, many States have made a mockery of this mandatory provision. This was recognized at the level of the Prime Minister in his speech on 29 June 2004, "...as far as funds are concerned, the awards of the State Finance Commissions should be fully honored. There are reports that State Finance Commissions are not constituted, of them not giving awards in time, and of these awards not honored when given, all of which erode panchayati raj." Under the indicator, all these parameters are identified and given appropriate weight. The indicator is strongly rooted in the 'Devolution Index'. The indicator reflects among others, 'fiscal capacity' of the State is comparable across States.
6. **Empowerment of Panchayat to Impose and Collect Revenue:** The *Panchayats* are empowered to maintain community resources, own minor forest produce, control over sale and manufacture of intoxicants, control over money-lending, exercise power to restore alienated land and control over functionaries in the social sector. *Panchayats* have also been authorized under Article 243 H and respective State Act(s) to collect and appropriate taxes, duties, tolls and fees. Though this indicator one can judge the level of empowerment to *Panchayats* to levy and collect taxes and non-taxes in their jurisdictions. 'Own revenue of *Panchayats*' as a percentage of 'own revenue of State' can be compared across States. Data for this indicator can be obtained from Finance Accounts and State governments and it is annual in periodicity. Among others, the indicator represents the 'fiscal capacity' and 'fiscal efforts'. It is comparable across States.
7. **Expenditure of Panchayats:** 'Total expenditure of *Panchayats*' as percentage of 'total expenditure of the State' shows the effectiveness of *Panchayats* in the State. Data for this indicator can be obtained from Finance Accounts and State governments. It is annual in periodicity. Among others, the indicator represents the 'fiscal capacity' and 'fiscal efforts'. It is comparable across States.
8. **Physical Infrastructure of Panchayat:** Functioning of *Panchayats* is directly related to the physical infrastructure. It implies that a proper infrastructure must be ensured to improve the working efficiency of *Panchayats*. The indicator can be estimated by obtaining data from States with respect to the legal provisions and actual arrangements for *Panchayats ghar* (building), furniture etc. The data is annual in periodicity. This indicator was suggested by various States to the 14th FC in their memoranda. The indicator, among others, reflects the 'fiscal capacity', and is comparable across States.
9. **E-Connectivity of Panchayat:** E-Connectivity of *Panchayats* plays a significant role in improving the 3Fs (Functions, Finances and Functionaries). It also improves decision making support system for *Panchayats*, and serves as a tool for transparency, disclosure of information and social audit. E-connectivity is essential for efficient delivery of services to residents, improving internal management and efficiency of *Panchayats*, capacity building of elected representatives and officials of *Panchayats*, and a medium of e-procurement. The data for this indicator can be obtained from State governments and it is annual in periodicity. The indicator was suggested by various States to the 14th FC in

their memoranda. Among others, the indicator represents the 'fiscal capacity' and is comparable across States.

10. **Capacity Building:** Capacity building is necessary to improve the functioning of the *Panchayats*. In *Panchayats*, a large number of elected representatives are illiterate and less aware about their roles and responsibilities, programs, procedures, systems etc. It was noted that even *Panchayat* functionaries are not technically equipped to perform their functions. Through this indicator, provisions and actual working of training infrastructure in the State are evaluated. The indicator is suggested by a majority of States to 14th FC in their memoranda. It can be estimated by obtaining data from State governments. The data is annual in periodicity. The indicator, among others, reflects the 'fiscal capacity' and is comparable across States.
11. **Accounting and Audit of *Panchayats*:** The quality of *Panchayats*' accounts and audit has been adversely commented by all UFCs so far. They made elaborate recommendations to improve the mechanism. The process requires a good deal of coordination between the Directorate of Local Fund Audit (DLFA) with C&AG in the State. At *Panchayat* level, the process requires the preparation of simple and easily comprehensible accounting standards and norms, emphasizing fund management and tracking. The data for this indicator can be obtained from the Office of Accountant General in each State and it is annual in periodicity. The indicator was suggested by various States to the 14th FC in their memoranda. Among others, the indicator reflects 'fiscal capacity' is comparable across States.
12. **Social Audit of *Panchayat*:** In order to establish a symbiotic relationship between social and general audit, a significant amount of emphasis was given to social audit at *Panchayat* level. Social audit policies of *Panchayats* are prepared on the basis of best practices available and adopted by State governments. These are important in various vertical schemes and the normal day to day financial transactions of the *Panchayats*. The practice empowers the citizen and ensures transparency. The data for this Indicator can be obtained from State governments and *Panchayats*. It is annual in periodicity. The indicator was suggested by various States to the 14th FC in their memoranda. Among others, the indicator reflects 'fiscal capacity' and is comparable across States.
13. **Function of *Gram Sabha*:** *Gram Sabha* is one of the necessary constituent of Panchayati Raj that preserves the traditions and customs of the people, their cultural identity, community resources and the customary mode of dispute resolution. *Gram Sabha* is one of the significant instruments for transparency, accountability and for involvement of the weaker or marginalized section of society. The *Gram Sabha* is the only forum that can ensure participative democracy as enshrined in Article 243A of the Constitution. Some variations have been noted in the provisions by States in devolving powers to the '*Gram Sabha*'. Through this indicator, strength of the 'decentralized democracy' is measured. The data for this indicator can be taken from the Department of Panchayati Raj of different States and village *Panchayats*. It is annual in periodicity. Among others, the indicator reflects 'fiscal capacity' and is comparable States.
14. **Transparency and Anti-Corruption:** Transparency is crucial for the accountability of *Panchayats* to its residents as well as the State government. This also works as an anti-corruption device. In addition, 'citizen charter', 'ombudsman' etc are good measures for

anti corruption. The practice provides ownership and voice to all citizens of society to discuss and approve or reject proposals of the *Panchayat* and also assess the performance of *Panchayats* time to time. It also provides a platform for effective social audit. The data for this indicator can be obtained from the Department of Panchayati Raj of different States and *Panchayats*. It is annual in periodicity. Among others, the indicator reflects 'fiscal capacity' and is comparable across States.

RESTRICTED CIRCULATION

CHAPTER 5

Practices of Intergovernmental Fiscal Transfers to Local Governments in other Federal Countries: Lessons for India¹⁴

5.1 Argentina: IGFT Framework for Local Government

Facts file (Basic)

Official Name	: Republic of Argentina
Capital	: Buenos Aires
Type of Governance	: Federal Republic
Number of tiers	: 3
Area	: 2,766,899 Km ²
Population	: 45.10 million ¹⁵
Total Income	: 897240 million
GDP	: 637430 million
Number of states	: 23
Number of districts	: 24
Number of local governments	: 2252 ¹⁶

Local Government in Argentina

Argentina is the world's eighth largest country in terms of area. Spanish is the official language of the country. Buenos Aires is the largest and San Juan is the smallest city.

Argentina is a federation of 23 states and the federal government retains control over crucial matters.¹⁷ The jurisdictions and attributes of Argentina's municipalities depend on each of the 23 State Constitutions.

States have granted very few fiscal powers to their municipalities, and these powers depend on the category of municipality and the state tax-sharing laws. Municipal debt is subject to municipal legislatures.¹⁸ There is no uniformity in "municipal regime" in the country. State constitutions determine the criteria for establishing municipal categories or levels of local governments¹⁹.

Political Structure

Argentina is a presidential democratic republic where the President is the Head of State and the Head of Government. The country possesses a bicameral legislature whose members are elected in non-concurrent elections.

The Vice-President presides over the Senate which has 72 members. The chamber of deputies has 257 members.²⁰

¹⁴ The note is contributed by Ms Yumna Jamal under the guidance of the Project Director.

¹⁵ worldpopulationreview.com/countries/argentina-population/

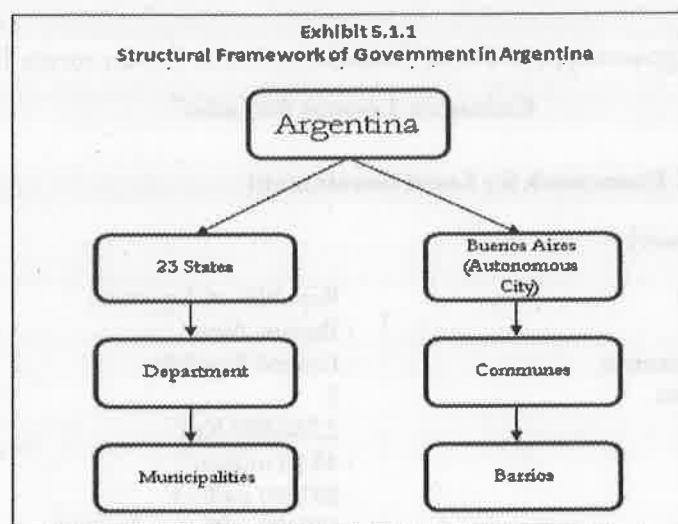
¹⁶ ijatnet.com/journals/ijat/Vol_3_No_1_June_2015/2.pdf

¹⁷ www.nationsencyclopedia.com/Americas/Argentina-LOCAL-GOVERNMENT.html

¹⁸ www.oecd.org/regional/regional-policy/profile-Argentina.pdf

¹⁹ <http://siteresources.worldbank.org/PSGLP/Resources/LocalGovernanceinDeveloping.pdf>

²⁰ www.worldatlas.com/articles/what-type-of-government-does-argentina-have.html



Source: http://www.lsc.ac.uk/asiaResearchCentre/_files/BrosioJimenezSocPolArgBra.pdf

Expenditure Assignment

Article 123 expresses that States should ensure municipal autonomy: Each state enacts its own Constitution as stated in Section 5, ensuring municipal autonomy and ruling its scope and content regarding the institutional, political, administrative, economic and financial aspects. All states except Jujuy, San Juan and Rioja have their own law on sharing fiscal resources among the municipalities. Municipalities have both exclusive and shared competences.²¹ (Please see Table 5.1.1)

Table 5.1.1: Expenditure assignment among different levels of government in Argentina

Federal Government	State Governments	Local Governments
Regulation of Commerce	Education	Waste Management
Customs	Health care	Road Construction
Currency	Transport services	Sewerage
Defense	Housing	Primary education
Infrastructure maintenance	Electricity and gas	Markets
Communication	Poverty alleviation	
Foreign affairs		

Source: <https://www.jstor.org/stable/20065407>, www.nationsencyclopedia.com/Americas/Argentina-local-government.html, www.oecd.org/regional/regional-policy/profile-Argentina.pdf.

Revenue Assignment

The jurisdictions and attributes of Argentina's municipalities show great degree of variations as they draw their powers from their respective State Constitution. The main sources of revenue of local governments are shown in Table 5.1.2.

²¹ <http://siteresources.worldbank.org/PSGI/P/Resources/LocalGovernanceinDeveloping.pdf>

Table 5.1.2: Revenue assignment among different levels of government in Argentina

Federal Government	State Governments	Local Governments
Tax on foreign trade	Property tax	Public Health Tax
Sanitation fee	Gross Income Tax	Inspection, safety, and Highway maintenance tax
Income tax	Automobile Tax	Electricity Charges
	Stamp and Gift Taxes	Office duties tax
	Registry	Building permits
	Provincial Turnover Tax	Advertising fees
	Value-Added Tax	Traffic violation fee
		Betterment tax

Source: http://ijatnet.com/journals/ijat/Vol_3_No_1_June_2015/2.pdf,
<http://siteresources.worldbank.org/PSGLP/Resources/LocalGovernanceinDeveloping.pdf>

In Argentina, municipalities are financed with their own taxation called *tributos* and fiscal transfers from other government levels.

Table 5.1.3: Resources of different levels in Argentina

Order	Levels of the Argentine System	Composition of fiscal resources in Argentina
1.	National Government	Own resources of the national government and Shared resources from the federal co-participation regime.
2.	State Governments	Own resources of the State governments, Shared resources from the federal co-participation regime.
3.	Local Governments	Own resources of the local governments, Shared resources from the national or state regimes of co-participation

Source: http://www.forumfed.org/wp-content/uploads/2016/02/Subnational_Tax_Powers_in_Argentina.pdf

Intergovernmental Fiscal Transfers

The resources allocated to each state in Argentina are shared with the municipalities. The federal government determines other municipal funds (the Border and Ports Fund, the Oil Fund for Borders and Coastlines, the Municipal Promotion Fund).²² Municipalities receive a share not only of the funding that the state receives from the federal government, but also of what the state itself raises from gross revenues and royalties.

The average percentage distributed by Argentina's states to their municipalities is 14.8 percent. The states with the lowest percentage of tax sharing are Chubut (7 percent) and San Luis (8 percent) and those with the largest percentage are Tierra del Fuego (35 percent) and Catamarca (25 percent). In Argentina, each state tax-sharing law establishes the fiscal authority of the municipalities, which in turn depend on the category in which each municipality is placed.

The division of resources from federal sources established in Argentina's National Tax-Sharing Law 23.548 does not mention any criteria or percentage for municipal funding or resources; it only says that states must share some of the resources they get from the federal government with their municipalities. This has led to very different percentages of tax-sharing among the states.²³

In Argentina, social expenditure is a component of state and local governments.²⁴ The same is allocated to the states through the Argentine intergovernmental transfer regime, based on the

²² http://www.lse.ac.uk/asiaResearchCentre/_files/BrosioJimenezSocPolArgBra.pdf

²³ <https://www.oecd.org/regional/regional-policy/profile-Argentina.pdf>

²⁴ <https://www.observ-ocd.org/sites/observ-ocd.org/files/2018-04/local-financing-and-taxation-in-latin-america.pdf>

Federal Tax-sharing system (CFI) established by Law 23.548. This legislation establishes primary distribution from the federal government to the states of 57.36% of taxes collected nationally as value added tax (VAT), as income tax and as some fuel taxes. These funds, which reach the states through this mechanism, are not earmarked for a specific purpose and the use of these funds is freely decided by the states. Income tax revenue is shared among the different levels of government.²⁵

Some transfers are general in nature while some are earmarked for specific purposes like the (National Housing Fund, FONAVI), basic infrastructure works (Buenos Aires Suburban Fund), electricity infrastructures (Fund for the Electric Development of the Interior, FEDEI), social security and roads.²⁶ There are two important intergovernmental transfers programs, FONAVI (Fondo Nacional de la Vivienda, National Housing Fund) which is directly affected by population figures²⁷ and ATN (Aportes del Tesoro Nacional, National Treasury Contributions).²⁸

Taxes shared by the states with the municipalities:

Taxes shared by the states with the municipalities can be divided into two major groups: national taxes and state taxes. National taxes could be unconditional or could be earmarked for specific purposes. If they are unconditional, the states share them with the municipalities; however earmarked taxes cannot be shared. National taxes include the value added tax and income tax, as well as capital taxes, such as the tax on personal property. States set aside certain taxes from the common revenue pool so that they can be used for specific purposes. State taxes that are shared with the municipalities include the gross income tax, real estate tax, and motor vehicle tax.²⁹ The proportions of national and state taxes shared with local governments vary from state to state.³⁰

Other transfers from states to local governments consist of the provincial share in agreements governing joint activities. In these agreements, the states contribute the funds for infrastructure under which the municipality or commune looks after the management and execution.³¹

The states establish tax sharing percentages in special laws, except for the states of Jujuy, La Rioja and San Juan, which are governed by transitory annual agreements in each of the municipalities. Few municipalities have the authority to collect taxes like Córdoba, Chaco, Chabut, Formosa, and Salta.³²

IGFT Mechanism

In Argentina, the Federal Tax-Sharing Law 23.548 assigns fixed percentages of funding allocated to each province, and does not establish specific percentages to be distributed to municipalities. On the other hand, the financial support of the Provinces to the municipalities is mostly going through the sharing of the disposable revenue base of each province. Each province establishes the composition and distribution of these revenues.³³

²⁵ <https://www.observ-ocd.org/sites/observ-ocd.org/files/2018-04/local-financing-and-taxation-in-latin-america.pdf>

²⁶ <https://www.observ-ocd.org/sites/observ-ocd.org/files/2018-04/local-financing-and-taxation-in-latin-america.pdf>

²⁷ <https://ecpr.eu/filestore/Paper?proposal/094fc7cc-7380-4fd2-a699-7992c52f3111.pdf>

²⁸ http://www.lsc.ac.uk/asiaResearchCentre/_files/BrosioJimenezSocPolArgBra.pdf

²⁹ <http://siteresources.worldbank.org/PSG1.P/Resources/LocalGovernanceinDeveloping.pdf>

³⁰ http://policydialogue.org/files/publications/ch3_Oscar_Cetrangolo_Juan_Carlos_Gomez_Sabaini.pdf

³¹ <http://siteresources.worldbank.org/PSG1.P/Resources/LocalGovernanceinDeveloping.pdf>

³² <http://siteresources.worldbank.org/PSG1.P/Resources/LocalGovernanceinDeveloping.pdf>

³³ www.oecd.org/regional/regional-policy/profile-Argentina.pdf

Approaches and Criteria

Local governments in Argentina lack financial resources. They rely mostly on transfers from state governments. State governments give funds to local governments on the basis of the following criteria:

1. Demographic pattern: Population growth, Population density, Population in urban area, and Population in rural area, and Age dependency ratio (old and young).³⁴ Undernourishment in population.
2. Land area: Decentralization in Argentina takes into account the land area of the municipalities.³⁵ The four largest states, Buenos Aires, Santa Fe, Cordoba and the City of Buenos Aires, account for 62 percent of the population and 71 percent of GDP.
3. Education: The decentralization process of primary schools administration began in the 1970s, during the military dictatorship. The Argentine society places great importance on education. Argentina gives almost 6% of its GDP to education; Enrollment of students for secondary education is high in the country with the local governments taking strong steps towards the same.³⁶
4. Health-care: The health sector is divided in the three sub-systems: a) public health; b) social security, which also includes national and provincial social insurances or funds and the *National Institute of Social Services for Pensioners (Instituto Nacional de Servicios Sociales para Jubilados y Pensionados, INSSJyP, commonly known as PAMI)*; and, c) private health. Public health is provided through hospitals and primary health centers.
5. Infant Mortality Rate: This indicator has continued its gradual decrease since at least 1990. The district with the best performance in terms of infant mortality rate is the City of Buenos Aires.³⁷
6. Poverty: Poverty stands at 25.7% in Argentina. Argentine Government's Programme of Support to Vulnerable Groups (PAGV) is the main government initiative to tackle the menace of poverty.³⁸
7. Unemployment: Since 2003, Argentina has been restructuring its social and employment policies to address the issue of unemployment, by generating decent work. For this purpose, unemployment was used as an indicator for funds transfer to local governments.³⁹

Relevant Points for India

Since two constitutions are in place in Argentina, local governments derive their powers from state constitutions in Argentina, whereas in India, local governments are created through National Constitution (State constitution does not exist in India) but derive its powers from State Legislature. However, safeguards have been provided for autonomy of the local governments both in India and Argentina. Seemingly, decentralized democracy exists in Argentina that facilitates democratic representation and makes institutions accountable to local people.

³⁴ data.humdata.org/dataset/world-bank-indicators-for-argentina

³⁵ data.humdata.org/dataset/world-bank-indicators-for-argentina

³⁶ <http://www.surlechemindelecole.org/en/education-in-argentina/>

³⁷ www.ucl.ac.uk/dpuprojects/drivers_urb_change/urb_governance/pdf_partic_proc/HIED_Schusterman_Poverty_Reduction_in_Action.pdf

³⁸ www.ucl.ac.uk/dpuprojects/drivers_urb_change/urb_governance/pdf_partic_proc/HIED_Schusterman_Poverty_Reduction_in_Action.pdf

³⁹ <http://www.unrisd.org/thinkpiece-hopp>

Argentina has National Tax Sharing Law 23.548, under which revenue from the federal sources is shared with the states. Local governments get their share from the states. However, no criteria or percentage have been mentioned at the federal level but it says that States must share some of the resources they get from federal government with their local governments.

Like India, some transfers in Argentina are general in nature while some are earmarked for specific purposes like the basic infrastructure works including electricity infrastructures, social security and roads.

Hence, similar to the practices among States in India, sub-national entities in Argentina have varying degree of fiscal decentralization. The state with lowest percentage of tax sharing is Chubut with 7 percent, while Tierra del Fuego is the state with highest percentage of tax sharing, i.e., 35 percent. On an average 14.8 per cent of State resources are shared with local governments.

However, Federal government in Argentina determines some municipal funds including Oil Fund, Border and Ports Funds, Municipal Promotion Fund. Local governments also receive resources from own revenues and royalties of States.

RESTRICTED CIRCULATION

5.2 Australia: IGFT Framework for Local Government⁴⁰

Facts file (Basic)

Official Name	: Commonwealth of Australia
Capital	: Canberra
Type of Governance	: Constitutional Monarchy ⁴¹
Number of Tiers	: 3
Area	: 7.692 million km ²
Population	: 25.09 million
Total Income	: 1130 million PPP\$ ⁴²
GDP	: 13.2 million \$
Number of States	: 6 ⁴³
Number of Territories	: 10
Number of Local Government	: 560

Local Government in Australia

Local government is only about 5% of Australian public sector. Constitutional responsibility for local government lies with the state and territory governments. This means that the roles and responsibilities of local government differ from state to state. Each Australian state has its own constitution and is able to make its own laws. While the states' powers vary across Australia, every state has a Local Government Act that provides the rules for the creation and operation of councils. In general, these Acts cover how councils are elected and their power to make and enforce local laws, known as by-laws. In this way, they have a third level of law-making in Australia.⁴⁴

There is no mention of local government in the Federal Constitution of Australia but every Sub-national Government has recognized them in their respective Constitution. Unlike India, there is only one level of local government in each State.

The states and the Northern Territory each have many local governments within their borders. The nomenclature of local governments varies across Australia. They can be called cities, shires, towns, or municipalities, but they are still controlled by the State or territory government above them.

In the Australian Capital Territory, the responsibilities usually handled by local government are administered by a Department of the Territory Government⁴⁵. Local Government Grants Commissions in each state and the Northern Territory recommend the distribution of the funding under the Financial Assistance Grant program to local governing bodies in accordance with the Act and the National Principles for allocating grants. The Australian Capital Territory does not have a local government grants commission as the territory government itself provides local government

⁴⁰ The note is contributed by Ms Yumna Jamal and Mr. Shonit Nayan under the guidance of the Project Director.

⁴¹ http://www.clgf.org.uk/default/assets/File/Country_profiles/Australia.pdf

⁴² World Bank, www.australia.gov.au

http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_g3-1.htm

⁴³ <https://www.australia.gov.au/about-government/how.../state-and-territory-government>

⁴⁴ <https://www.parliament.nsw.gov.au/about/Pages/The-Roles-and-Responsibilities-of-Federal-State-a.aspx>

⁴⁵ <https://www.australia.gov.au/about-government/states-territories-and-local-government>

<https://alga.asn.au/>

http://www.clgf.org.uk/default/assets/File/Country_profiles/Australia.pdf

services. The grant is paid in quarterly installments to state and territory governments for immediate distribution to local governing bodies⁴⁶.

Political Structure

The Australian Constitution of 1901 established a federal system of government. Under this system, powers are distributed between a national government (the Commonwealth) and the six States (three territories - the Australian Capital Territory, the Northern Territory, and Norfolk Island have self-government arrangements). The Constitution gives the legislative power of the Commonwealth—the power to make laws—to the Parliament. The two Houses have equal powers, except that there are restrictions on the power of the Senate to introduce or directly amend some kinds of financial legislation.⁴⁷

Expenditure Assignment among different levels of Government

Expenditure assignment among the different levels of government in Australia is mentioned in *Table 5.2.1*.

Table 5.2.1: List of Subjects Falling Under Different Levels of Government in Australia

Federal	State	Local
Foreign Affairs	Public Security	Construction of roads
Defense	Urban Development	Drainage system
Immigration	Housing	Town Planning
Foreign Trade Management	Transportation	Waste
Currency	Health	
Unemployment Allowances	Education	
Insurance Allowances		

Expenditure Assignments of Local Government in Australia

Table 5.2.2: Functional Responsibilities of Australian Local Governments

Functional area	Roles
Engineering and infrastructure	Public works design; construction and maintenance of Roads, cleaning of drainage etc.
Property-related	Domestic waste management including recycling and solid management etc.
Planning and development	Land use and town planning, building, inspection, Licensing and certification
Environment and health	Catchment management; parks and gardens; animal Control, food sampling etc.
Community and social	Old age and Child care services, health clinics; youth- Centres.
Recreation, culture and education	Swimming pools, recreation centres, community halls etc.
Other	Bus services, abattoirs, sale-yards, markets etc.

Source: www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting16.pdf

⁴⁶ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/

https://en.wikipedia.org/wiki/Local_government_in_Australia

⁴⁷ https://www.aph.gov.au/About_Parliament/House_of_Representatives/Powers_practice_and_procedure/00_-_Infosheets/Infosheet_20_-_The_Australian_system_of_government

Revenue Assignment

Revenue collection in Australia is highly centralized as the federal government collects most of the revenues in the country and it shares some of the revenue with the states through conditional and unconditional grants⁴⁸. Revenue assignment in Australia is presented in the following table.

Table 5.2.3: Tax Distribution Framework among different levels of Australian Governments

Commonwealth	State	Local
<ul style="list-style-type: none"> ▪ Personal Income Tax ▪ Company Tax ▪ Superannuation Tax ▪ Sales Tax ▪ Excise Duties ▪ Custom Duties ▪ Goods and Services Tax ▪ Fringe Benefit Tax ▪ Luxury Car Tax ▪ Agricultural Levies 	<ul style="list-style-type: none"> ▪ Property Taxes ▪ Payroll tax ▪ Land Tax ▪ Gambling Tax ▪ Taxes on Insurance ▪ Stamp duty on conveyances ▪ Motor Vehicle Taxes ▪ Other Immovable items 	<ul style="list-style-type: none"> ▪ Property Taxes ▪ Sales of goods and services ▪ Interest Income ▪ Fees and Fines.

Note: The share of Local government's taxation in per cent wise for year 2014-15: Income tax (58%), employer's payroll taxes (5%), property tax (10.1%), Goods & services (23.4%), Use of goods & performance activities (3.5%) as per the Australian Bureau of Statistics 2014-15.

Intergovernmental Fiscal Transfers to Local Government

Local governments in Australia derive their major funding from their own taxation and the grants which they receive from the federal and state governments. Local governments got 83% of revenue from their own taxes, and 17% revenue is in the form of grants in the year 2005-06. Taxes levied on the sale of goods and services, and council rates constitute major portion of taxes for the local governments. (Please see Table 5.2.4)

Table 5.2.4 Sources of Local Government Revenue in Australia

Own Source Revenue (83%)	Grants (17%)
<ul style="list-style-type: none"> ▪ Local Council Rates (37%) ▪ GST (29%) ▪ Income from interest & dividend (3%) and ▪ Others revenue-includes fines, developer charges etc.(14%) 	<ul style="list-style-type: none"> ▪ Tied/Direct Grant from Federal Government to Local Councils including roads to recovery (1.5%); ▪ Untied Grant (via State government for local councils-FAG & road grant)(7%)- General purpose grant(5) & Identified local road grant (2%) ▪ State or territory government grants (8.5%)

Source: Productivity Commission Report on local government, 2008.

Note: FAG Financial Assistance Grant

The IGFT to local government in Australia is mainly distributed through 3 channels namely:

- Tied Funding/Direct funding from federal government;
- Untied funding by federal government via States and territory government; and
- Grant from State and territory government

⁴⁸ www.forumfed.ORG/WP-content/uploads/2016/20/fiscalrelationsinfederalcountries.pdf

Tied/direct fund from Federal government

The majority of federal funding to local government is for general purposes. There are also Specific purpose payments made to local government by the Commonwealth in areas such as childcare and disabilities services. Specific purpose payments also include roads, with the major component being the roads to recovery program.⁴⁹

Two specific purpose payments are given by the federal government to the local governments under the scheme of tied funding. One is for local roads and other for drought relief in the rural areas. However, the distribution is carried out by the State Grants Commissions.

Untied/Indirect Funding

Financial Assistance Grant (hereinafter as FAG) are provided by the Australian Government, through the State Government, for the specific purpose of funding in accordance with the Australian Government's Local Government (Financial Assistance) Act 1995 (the Australian Government 1995 Act). It has two components: general purpose grants which are divided among the states. It is the responsibility of the states to distribute the funds to local governments in accordance with recommendations made by local grants commission.⁵⁰

The untied assistance is passed to the States on condition that they establish a State Grants Commission that acts independently of the government to recommend the distribution to local government. The Commonwealth requires the State Grants Commissions to distribute the funds in three parts: about 20 per cent shared between each of the local governments in Australia on an equal per capita basis; about 30 per cent shared between each local government 'on the basis of the relative need of each local governing body for roads expenditure and to preserve its roads assets'; and about 50 per cent on the basis of fiscal equalization.⁵¹ (Please see box 5.2.1 for method of allocation of base grant component of FAG)

⁴⁹ <https://alga.asn.au/submission-to-the-taxation-issues-paper/>

⁵⁰ <https://alga.asn.au/submission-to-the-taxation-issues-paper/>

⁵¹ Scarle, Bob. 2002.

Box 5.2.1

FAG: Base Grant (BG) Allocation to Local Councils in Australia

Two pool approach based percentage division formula (70/30):

i) Distribution of First pool (30 per cent of total base grant): Based on 'Per capita population share' of local council, and

ii) Distribution of Second pool (70 per cent of total base grant): Based on 'relative needs' or 'equalization' basis

- Second pool determination/Balanced budget model (Relative Need Equalization): It comprises the following steps.

Step I- Measuring each local council's 'expenditure requirement' necessary to provide services to a common standard with all other councils

Step II- Measuring each local council's 'revenue capacity', i.e. their capacity to raise revenue to provide such service

Step III- Calculation of Relative Need/basic equalization calculation

Revenue Capacity	Less	Expenditure Requirement	=	Standardized Surplus/Deficit
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Which also leads to Standardized Surplus/Deficit

- Special Cases: If Expenditure Requirement > Revenue Capacity (i.e. Local council's expenditure requirement exceeds their revenue capacity): Case of 'standardized deficit': In this condition, such local council receives a share of the relative needs pool according to its share of the state total standardized statewide deficit.
- If Expenditure < Revenue Capacity (i.e. Revenue capacity is more than expenditure requirement): Case of Standardized surplus: In this scenario a local council will not receive a share of the relative need pool, but will still be entitled to its population share of the per capita pool.

Source: Report of SGC (2018). Overview of Functions & Methods, Tasmania

Notes: Details about calculation methodologies for expenditure requirement and revenue capacity has been provided in Box 5.2.2

Institutional Framework for IGFT

Commonwealth Grants Commission (CGC): It is the most significant body for horizontal fiscal equalization in Australia. It has no Constitutional basis and was created by the Commonwealth Grants Commission Act in 1933. It is a permanent body and comprised a Chair and between two to five members. The Chair and members can be appointed on either a full-time basis or part-time basis, depending upon expected workload. In normal circumstances, all appointees are part-time and are appointed for a five year period, but their appointments can be renewed.⁵²

The process for selection of Members of the Commission is not specified in the Act. When a vacancy exists or is expected due to a Member's term coming to an end, the Commonwealth Treasury asks its State colleagues for nominations and a list of possibilities, including reappointment, is then discussed informally by the Heads of Treasuries. Once the selected individual is agreed upon and has accepted the possible appointment, papers are prepared for the Commonwealth Cabinet to propose the appointment to the Governor-General. As membership of the Commission is a statutory position, the appointment is made by the Governor-General, not the Minister to which the Commission reports, or the Prime Minister.

⁵² <https://www.cgc.gov.au>

At present, the Commission presents its reports to the Commonwealth Treasurer. For many years, it was thought that the Commission's independence should be stressed by its reporting to a Minister who did not have financial management responsibilities, but the move to the current arrangements does not seem to have any impact on the perception of its independence.

The Commission has always had a permanent staff employed as Commonwealth civil servants. At present, there are about 30 such staffs work only for the Commission. The Commission has a separate budget and is subject to annual budget process.⁵³

The Australian Government 1995 Act

The Australian Government 1995 Act requires a state to establish a Local Government Grants Commission (LGGC), the membership of which must include two persons associated with local government. Under the LGGC the base grants are distributed within states in accordance with seven National Principles as per the Section 9 of the Australian Government 1995 Act. The key principles for the distribution of Base grant are as follows:

- Horizontal Fiscal Equalization- Grants recommended on the basis of relative need.
- Effort Neutrality- Policies of individual councils, in terms of actual expenditure and revenue raising efforts.
- Minimum Grant- No local council receives less than its per capita share of 30 per cent of the base grant provided to each State.

LGGC looks into the general purpose transfers made by the federal government to the local governments. The role of the Commission is to make recommendations to the Minister for Local Government for the allocation to general purpose financial assistance grants from the Commonwealth to the State.⁵⁴

Every state in Australia has its own local government grant commission except the Australian Capital Territory. However, all these commissions stress on the principle of horizontal equalization to achieve parity among all the local governments. The primary function of the Local Government Grants Commission is to make recommendations to the Minister for Local Government on the allocation of general purpose grants to local governing bodies.⁵⁵

State Grants Commission (SGC)-The State Grants Commission (the Commission) is an independent statutory body that was established by State legislation, the State Grants Commission Act 1976. The primary function of the Commission is to make recommendations to the Treasurer concerning the distribution of Australian Government financial assistance grants (FAGs) to local government under the provisions of the Australian Government legislation, the Local Government (Financial Assistance) Act 1995 (Commonwealth).

Its composition: 1+2 [Nominee of the Secretary of the Department of Treasury and Finance (Chair)+ Representative of local government-2]

⁵³ <https://www.cgc.gov.au>

⁵⁴ <https://researchdata.ands.org.au/local-government-grants-commission/164951>

⁵⁵ <https://www.regional.gov.au/local/assistance/index.aspx>

Box 5.2.2

Calculation of Revenue Capacity and Expenditure Requirement

Revenue capacity is computed as a total sum of 3 year averages of following sub-components namely:

- standardized revenue i.e. the revenue of a local council raised by application of the statewide standard or average rate per dollar of adjusted annual value to all its ratable property in its area;
- minimum grant i.e. the council's per capita grant allocation; and
- other financial support payments i.e. grants and other payments to councils that have not been deducted from council expenditures in the process of calculating standardized expenditure

And expenditure requirement is the summation of following attributes:

- i) standardized expenditure i.e. a 3 year average of the expenditure required to provide a common range of services allowing for each council's unique cost conditions;
- ii) any allowances for additional support provided by councils for either GP practices or airports;
- the Budget Result Term which enables a balanced budget at a state level

Source: Report of SGC (2018). Overview of Functions & Methods, Tasmania

Approaches and Criteria

The following indicators are used for the IGFT from federal to local councils in Australia.

- **Education and Health:** The education expenditure and health expenditure are important criterion in fiscal decentralization in Australia.
- **Social Security and Welfare Measures:** The social security and welfare expenditure forms the most indispensable criteria. Local governments are tasked with the responsibility to provide social security schemes to the public.
- **Poverty:** High rates of poverty is prevailing in the remote and rural areas of Australia. Remote areas get far more attention in funds transfers from state to local government⁵⁶.
- **Administrative Scale Factors:** It constitutes another criterion for devolution of funds to the local government. The bigger the size of a state, more will be the fixed costs incurred for providing certain basic services to the public. The administrative scale factors thus, result into higher relativities for less populated states and lower relativities for the more populated states in Australia⁵⁷.

In 2014-15, Local Councils raised 89.7 per cent of their revenue from its own sources, while the rest 10.3 per cent were covered by grants and subsidies. Individual councils have differing abilities to raise revenue. These differing abilities may not be apparent when considering national or even state averages. The differences between urban, rural and remote councils including their

⁵⁶ https://www.unc.edu.au/__data/assets/pdf_file/0003/67359/econwp95-20.pdf,
www.rdaa.com.au/documents/item/453

⁵⁷ https://www.nipfp.org.in/media/medialibrary/2013/04/wp04_nipfp_020.pdf

population size, rating base and ability to levy user charges, affects the ability of a council to raise revenue. (Source: *Local Government National Report, 2014-15*)

Relevant Points for India

The provisions regarding the creation of local governments are found in the State Constitution in Australia, unlike India where the local government has been mentioned in the 73rd Amendment Act, 1992. Nevertheless, in both cases local governments draw their powers from States. Australia is a federation in which the Centre and constituent units have set of institutions of government typically found in a common law parliamentary democracy like India. Each jurisdiction on the face of the Australian Constitution has considerable autonomy from the others in the design and operation of its own institutions.

The residual powers lie with the constituent political communities in Australia, Brazil and Germany, whereas the residual powers lie with the federal government in India, Canada, and South Africa. In Australia, the federal government garners almost 82 percent of the country's tax revenue, which is a lion share among all the levels of government. Although tax powers in many federations are allocated to the national, state and local governments so that each order of government can raise at least some portion of its own revenue. Local governments usually have the least own-source revenue-raising authority, followed by the state governments. Property taxation is the main local tax power in Australia. State governments give large grants to local governments on the basis of their needs like infrastructure development, etc. Local governments get direct funding from the federal government and states based on their relative needs and expenditure. Local governments garners around 83% of its revenue from its own taxation and 17% revenue comes from the various grants it get from the federal and state governments.

Federal governments do pass on untied assistance to States on condition that they establish a State Grants Commission, an independent statutory body (similar to SFC in India) to recommend the horizontal distribution of untied funds to local government. The Commonwealth requires the fund by distribution among local governments through State Grants Commission in three parts i.e. 20 per cent on per capita basis; 30 per cent on relative needs basis; and 50 per cent on fiscal equalization basis.

5.3 Federal Republic of Brazil: IGFT Framework for Local Government⁵⁸

Facts File (Basic)

Official Name	: Federative Republic of Brazil
Capital	: Brasília
Type of Governance	: Federal Republic
Number of Tiers	: 3
Area	: 8,515,767 km ²
Population	: 209,894,000 (As per Census, 2017)
Total Income	: \$1.868 trillion PPP (2018)
GDP	: \$3.365 trillion (2018)
Number of States	: 26
Number of municipalities	: 5570

Local Government in Brazil

As per the Brazilian federal Constitution, the Brazilian Federation is the "indissoluble union" of two levels of distinct political entities: the States and the Federal District (state and municipality rolled into one), and the Municipalities (municípios).⁵⁹

It is a federation composed of 26 States, one Federal District and 5,570 Municipalities. States have autonomous administrations, collect their own taxes and receive a share of taxes collected by the Union government. Municipalities, like the states, have autonomous administrations, collect their own taxes and receive a share of taxes collected by the Federal and state governments.⁶⁰

At the municipal level, there are a large number of small cities. 71% of the cities in Brazil have less than 20 thousand inhabitants and 90% have less than 50 thousand inhabitants. This population distribution impacts the federative relations between the federal government, states and municipalities. In municipalities, the effectiveness in implementation of public policies is influenced by these relations that directly impact the efficient provision of public goods and services for the public.⁶¹

Every municipality in Brazil holds local elections for mayors and municipal councils for a four-year term. Municipal governments are constituted by a Mayor (prefeito), a Vice-Mayor and a Council (Camara Municipal). The federal constitution states that the Mayor and Vice-Mayor must be elected by popular vote every four years with only one reelection. Councilmen are elected by popular vote every four years with reelection allowed for indefinite periods. The size of the city council is proportional to the municipality's population. In no case, the number of members is below nine or above fifty-five.⁶²

⁵⁸ The note is contributed by Ms Yumna Jamal under the guidance of the Project Director.

⁵⁹ www.wilsoncenter.org/sites/default/files/ACF1815.pdf

⁶⁰ Wikipedia

⁶¹ www.ipca.gov.br/agencia/images/federalism-in-brazil_workshop_scept_2016.pdf

⁶² www2.gwu.edu/~ibi/minerva/Spring2006/Karla.Lopes.Borges.de.Melo.doc

Political Structure

The governance of Brazil takes place in a framework of a federal presidential representative democratic republic; the President is both head of state and head of government.

The power structure of Brazil's legislative branch of federal government is defined by articles 44-75 of the Brazilian Constitution of 1988. The Federal Legislative Branch consists of two houses or chambers: the Senate and the Chamber of Deputies. The Constitution of 1988 establishes the municipal government as a third tier of government with a constitutional status equal to the states.⁶³

Expenditure Assignment

The Municipal Tax Sub-system is instituted by the Constitution itself, which establishes that the municipalities may collect taxes. The administrative-political autonomy, which is an essential characteristic of Brazil's federative system, confers to each government level the possibility of instituting taxes, fees (due to its police force or to the use of public services) and improvement charges (due to public works).⁶⁴

Article 30 of the Constitution lays out municipal responsibilities for the provision of public goods.⁶⁵

Table 5.3.1: List of Subjects Falling Under Different Levels of Government in Brazil

Federal Government	Federal-State (Shared)	State Government	Local Government
<ul style="list-style-type: none"> ▪ National Defense ▪ Foreign Policy ▪ Inter-state ▪ Highways ▪ International Trade ▪ Currency ▪ Banking ▪ Use of water resources ▪ National Highways ▪ Postal service ▪ Police: federal and frontier areas ▪ Regulation of labor, ▪ Inter-state commerce, ▪ National Statistical system 	<ul style="list-style-type: none"> ▪ Health ▪ Education ▪ Culture ▪ Protection of the environment and the natural resources ▪ Agriculture ▪ Food distribution ▪ Housing ▪ Sanitation ▪ Social welfare ▪ Police ▪ Hydroelectricity 	<ul style="list-style-type: none"> ▪ Highways ▪ Train transportation ▪ Residual powers i.e. any subject not assigned to federal or municipal levels by the Constitution. 	<ul style="list-style-type: none"> ▪ Public transport (intracity) ▪ Pre-school and elementary education ▪ Preventive health care ▪ Land use ▪ Historical and cultural preservation

Source: www.imf.org/external/np/seminars/cng/2004/fiscal/pdf/guardia.pdf

Revenue Assignment

Tax assignment in Brazil is clearly defined in the Federal Constitution, and the proceeds of most taxes are transferred to the state governments according to non-discretionary constitutional rules.

⁶³ www.studycountry.com/guide/BR-government.html

⁶⁴ Brazil's System of Local Government, Local Finance and Intergovernmental Relations by Celina Souza, available at research gate

⁶⁵ Intergovernmental Finance in Five Emerging Market Economies by Tapas K. Sen

Taxes are assigned to the three tiers of government that administer, collect and legislate about them.⁶⁶ The federal government is responsible for the sharing of revenue from the income tax among all the levels of government.⁶⁷

Table 5.3.2: Tax Assignment at Different levels of Governments in Brazil

Federal	State	Local
Personal Income Tax (IRPF)	Value-added Tax (ICMS)	Urban Property (IPTU)
Corporate Profits (IRPJ)	Personal Property (IPVA)	Services Tax (ISS)
Industrial Products (IPI)	Donations and Inheritances (ITCMD)	Property Transfer (ITBI)
Financial Operations (IDI)		
Tax on Fuels (CIDE)		
Rural Property (ITR)		
Tax on Imports (II)		
Payroll Tax		

Source: Tapas Sen et al. (2014)

As per the Article 157 of the Brazilian Constitution, the following are allocated to the States and Federal District:

1. Proceeds from collection of the federal tax on income and earnings of any nature, withheld from income paid, by whatever instrument, by them, their autarchies and by foundations they institute and maintain;
2. Twenty percent of the proceeds from the collection of the tax that the Union institutes in the exercise of the power conferred on to it by Article 154.

Table 5.3.3: Overview of Local taxes and Constitutional transfers to the Municipalities in Brazil post 1988

Local Tax	Federal Transfer	State Transfer
Service Tax (ISS)	22.5% of income tax	25% of value-added tax (ICMS)
Urban Property Tax (IPTU)	50% of rural property tax	50% of motor vehicle registration tax (IPVA)
Frontage Tax	25% of the tax on industrial products (IPI)	
Property Transfers (ITBI)	70% of the tax on financial operations on gold (IPF/gold)	

Source: Brazil's System of Local Government, Finance and IGRs by Celina Souza

Brazilian municipalities have different sources of income, among their own income sources are taxes on property and public services, licenses, fees and income from diverse economic activities and utilization of municipal assets. Municipalities also receive income from the levy of federal and state taxes. Being a way to strengthen the administrative-political and financial autonomy of government levels, the Brazilian Constitution defines a system of "unconditional" transfers between the Union, the States and the Municipalities, which can be either direct or through the creation of special funds (indirect). Regardless the type, transfers always occur from higher to lower government levels, i.e., in the case of cities, from the Union to the Municipalities or from the States to their respective Municipalities.⁶⁸

⁶⁶<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.459.2640&rep=rep1&type=pdf>

⁶⁷www.intechopen.com/books/taxes-and-taxation-trends/local-governments-tax-burden-in-brazil-evolution-and-characteristics

⁶⁸ Karla Lopes Borges de Melo, The Municipality and the Fiscal Federalism in Brazil

Intergovernmental Fiscal Transfer

The Brazilian system of intergovernmental transfers has its roots in the tax reform of 1967. Yet, the 1988 Constitution implemented some important changes to the system, increasing transfers, especially those aimed at reducing regional disparities.

In Brazil, the ownership of natural resources lies with the federal government. Royalties and excises are shared between the federal and the producing and bordering states and municipalities. Direct taxes and a very tiny share of royalties are shared between the federal and all states and municipalities. A few municipalities receive a large amount of resources much to the detriment of others. State of Rio de Janeiro witnesses great inequality in the distribution of resources. Municipalities such as *Campos do Goytacaz*, *Macaé*, *Rio das Ostras*, and *Quissamã* benefit greatly, to the extent that some of them are among the cities with the highest per capita revenue in Brazil.

The main intergovernmental transfers in Brazil (FPE and FPM) are adequate instruments to address the horizontal fiscal gaps. FPM and FPE are the most significant transfer of financial resources from the Union to the states and the municipalities. As provided in the Constitution of 1988, annually, the Federal Government passes part of its revenue collected from the Income Tax (IR) and IRPJ (federal corporate revenue tax that applies to the net profit of any legal entity in Brazil) and the Tax on manufactured products (IPI) to the states, the Federal District and the municipalities. They are financed through a fixed share of federal tax revenues and their allocation formula do reflect horizontal fiscal gaps, providing poorer regions with greater per-capita transfers. The FPE allocation takes into account the demographic developments. The distribution of funds among the federal entities exists as a mechanism to reduce social inequalities among the Brazilian regions and to promote the socioeconomic balance between the states and municipalities.⁶⁹

Fundo de Participação dos Estados e Distrito Federal (FPE): The State Participation Fund is distributed equally between the 26 Brazilian states and the Federal District. The fund is composed of 21.5% of the total IPI and IR collection. The money is distributed in direct proportion to each State population and size, and in inverse proportion to per capita income. The FPE is divided in two consignments:

A. 85% of the resources is distributed to the states of North, Northeast and Middle-East regions and the Federal District

B. 15% of the resources goes to states of Southern and south-east regions⁷⁰.

Fundo de Participação dos Municípios (FPM): The Municipality Participation Fund includes 23.5% of the collected money from IPI (applied to national and foreign products that have been modified in some industrialized way for consumption or use) and IR. The FPM is divided according to the following percentages:

- A. 10% goes to the state capitals municipalities.
- B. 86.4 % goes to the other municipalities.

⁶⁹ Intergovernmental Finance in Five Emerging Market Economies by Tapas K. Sen available at fincomindia.nic.in/writerzaddata/html_en_files/fincom14/others/31.pdf

⁷⁰ thebrazilbusiness.com/article/what-is-fpm-and-fpe

- C. 3.6 % goes to the state Reserve Fund to be redistributed to cities with more than 150 inhabitants.

FPM is divided among the municipalities according to their number of inhabitants. Every state is obliged to pass 10 % of its FPE to the municipalities. The FPE is the main source of revenue for most of the Brazilian municipalities. The federal government has to take the responsibility for equalization through a transfer system.⁷¹

Intergovernmental transfers include three types of transfers: (a) mandatory unconditional transfers, (b) mandatory conditional transfers, and (c) discretionary federal grants. First two transfers account for the bulk of the intergovernmental transfers, whereas discretionary. Revenue earned on the Personal Income Tax is shared among the federal, state and local governments.⁷²

States Transfer to Local Government

State transfers to the local governments are in the form of earmarked tax revenues which are ICMS, IPVA. The distribution of these tax revenues is based on origin and need.

Municipalities receive share of the revenue collected from ICMS (25% of total proceeds) and IPVA.

ICMS is for the most part shared in accordance to the value added by each municipality. Each state also can define its own ICMS sharing rules for one-fourth of the transferred amounts.

One quarter of all the Value Added Tax (VAT) collected by the states is passed on to the local government. Three quarters of this transfer is based on the value added by each local government, but states have the discretion to set their own rules to distribute the remaining quarter. Some states have changed their laws to condition the distribution on performance indicators as an incentive for better governance.

IPVA is divided among municipalities in accordance with the number of vehicles registered.⁷³

Mechanism

Instituicao Fiscal Independente or Independent Fiscal Institution

It is the main body governing the fiscal transfers among different levels of government in the country. The IFI was borne by the Senate Resolution 42/2016 to address the Brazilian fiscal and economic crisis which stimulated institutional responses by the Congress and the federal government. IFI came into being in 2016. It is led by a board of three directors. Technical Advisory Council of 5 members is required to assist the IFI.⁷⁴ Along with the IFI, the National Treasury of Brazil looks into the public accounts in a more efficient way to bring about transparency and accountability.

⁷¹ thebrazilbusiness.com/article/what-is-fpm-and-fpe

⁷² Intergovernmental Finance in Five Emerging Market Economies by Tapas K. Sen available at fincomindia.nic.in/writersaddata/html_en_files/fincom14/others/31.pdf

⁷³ World Bank Group Report on Brazil-Governance Global Practice, July, 2018

⁷⁴ <https://www12.senado.leg.br/ifi>

Approaches and Criteria

Chapter I, Section 6 (Articles 158 through 162), of the Brazilian Constitution describes Brazil's system of intergovernmental transfers. Article 158 specifically describes municipalities' revenue rights.⁷⁵ Following are the criteria for funds transfer from the federal and state governments to local governments in the country:

1. Population: The federal constitutional transfers from income tax (IR) and from the tax on industrial products (IPI) creates a fund called FPM - *Fundo de Participação Municipal* (Municipal Participation Fund). This fund transfers 10% to state capitals, 86.4% to municipalities in the interior and 3.6% to municipalities with more than 156,216 inhabitants. Thus, this formula benefits less populous municipalities in the country. Federal transfers to the municipalities represent the main source of revenue for small and medium-sized municipalities, i.e. those that shelter the very poor and those in sparsely populated areas.⁷⁶

2. Education: The Brazilian states transfer 25% of ICMS to the municipalities of which certain percentage has to be spent on education.

3. Health: The Brazilian municipalities are supposed to allocate 15% of their own revenue and of constitutional transfers to health care scheme.

4. Need factors⁷⁷:

- Percentage of aged population: In this, two variables are considered, aged population without earnings and population which are poor.⁷⁸
- Percentage of infant mortality: Infant Mortality Rate (IMR) is high in the country. The lower relevance of socio-economic and healthcare variables and the greater importance of biological factors in determining IMR reflect the protective effect of high economic and social development of local governments.⁷⁹
- Percentage of illiteracy: Brazil's education system is highly decentralized, with about one-quarter of its population below the age of 15. Brazil tackles the issue of illiteracy by giving funding to local governments for education. For instance, Bolsa Escola scheme was devised by the federal government to boost literacy among poor.⁸⁰
- Percentage of people with access to clean water: Approximately 20 million of the rural population of the country has no access to basic services such as water. State governments look at the need to provide water as criteria for giving funds to local governments.⁸¹

⁷⁵ Brazil's System of Local Government, Local Finance and Intergovernmental Relations by Celina Souza, available at research gate)

⁷⁶ citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.459.2640&rep=rep1...pdf

⁷⁷ <http://www.iariw.org/papers/2013/PolitiPaper.pdf>

⁷⁸ [Repositorio.ipca.gov.br/bitstream/11058/4962/1/DiscussionPaper_113.pdf](https://repositorio.ipca.gov.br/bitstream/11058/4962/1/DiscussionPaper_113.pdf)

⁷⁹ <https://www.childfund.org/Reducing-Child-Mortality-Rates-in-Brazil/>

⁸⁰ www.oecd.org/education/brazil-country-profile.pdf

⁸¹ <https://www.gvp.org/globalassets/global/toolbox/case-studies/americas-and-caribbean/brazil-an-innovative-management-model-for-rural-water-supply-and-sanitation-in-ceara-state-411.pdf>

5. Non-need factors⁸²:

- Population density: The southeastern states in the country are densely populated. Brazil is densely populated near the ocean.⁸³
- Percentage of urban and rural population: Around 14.07% of the population lives in rural areas in Brazil, while 85.93% of the population lives in urban areas. Rural-urban migration has been contentious in Brazil. People migrate in large number to urban areas from the rural areas. Local governments get funds on the basis of this non-need factor.⁸⁴

6. Availability of municipal infrastructure: About 80% of the road network in the country is under the responsibility of local governments, and the maintenance costs are high of the infrastructure. Another item of high costs is energy consumption. Federal and state governments give funds to local governments in this respect.⁸⁵

Relevant Points for India

Brazil adopted a complex “marble cake” federalism model with overlapping and shared responsibilities among various levels of the governments, and all are treated as equal partners in the federation. Although some functions are exclusively assigned by the 1988 Constitution, a clear division of responsibilities across three levels of the governments is absent for several functional areas, for example, health care, social security, education, agriculture, sanitation, housing, public transport, natural resource management, law enforcement and environmental protection.

Much like the states in India, the states in Brazilian federation are confronted with the problem of regional disparities. Brazil's vertical fiscal gap stands at 27 percent, lower than in many other federal countries. The Local government is created through 1988 Constitution of Brazil with status equal to the States.

Intergovernmental fiscal transfers to local governments take into account regional disparities, population, economic backwardness and specific needs of the local government. However, population constitutes the major criteria in this regard. The local governments are better equipped to spend large funds particularly in two sectors, namely, health and education. Local governments' main revenue-raising taxes are service tax and property tax. They receive share in the Value Added Tax and Vehicle Taxes from the State governments. Whereas federal income tax is shared proportionately by the all three spheres of government. There are two funds so far as the IGFT is concerned i.e. State Participation Fund called FPE and Municipalities Participation Fund called FPM. FPM receives 23.5 from Federal tax on production and income i.e. IPI and IR. The fund is divided among the local governments of State capitals and other cities based on fiscal need and fiscal capacity. As per the legal requirement, 10 per cent of FPE is shared with municipalities.

⁸² <http://www.iariw.org/papers/2013/PolitPaper.pdf>

⁸³ http://www.scielo.br/scielo.php?script=sci_arttext&pid=S1984-92302017000400555 , *worldpopulationreview.com/countries/brazil-population/*

⁸⁴ <https://tradingeconomics.com/brazil>

⁸⁵ www.academia.edu/208068/Which_Way_The_Politics_of_Decentralization_in_Brazil

One-quarter of the value added tax (VAT) collected by the States is passed on the local government, 75% of this is transferred based on the value added by each local government. For the rest, 25% States have the discretion to set their own rules.

The VAT is levied on the value added in the production of goods and services. It is a tax on consumption, and it is levied on the value added at each stage of production. The VAT is levied on the value added in the production of goods and services, and it is levied on the value added at each stage of production.

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RESTRICTED CIRCULATION

5.4 Canada: IGFT Framework for Local Government⁸⁶

Facts File (Basic)

Official Name	: Canada
Capital City	: Ottawa
Type of Governance	: Federal
Number of Tiers	: 2
Area	: 9 093 507 km ²
Population	: 35.544 million
Total Income	: 1680 million ⁸⁷
GDP	: 1 601.8 billion
Number of States	: 10
Number of Districts	: 338 ⁸⁸
Number of Local Governments	: 3805 ⁸⁹

Local government in Canada

In Canada, Municipal governments are entities of provincial governments; and their powers flow from provincial legislation. They are responsible for local matters, such as policing etc. They often participate in the delivery of provincial services, such as welfare and education.⁹⁰

The Constitution Act (1982), defines a federal system of shared powers in which the federal government and the provinces have equal status.

The sub-national system is two-tiered and made up of 10 provinces and 3 territories at the upper level and 3805 municipalities at the lower level. Municipalities are not formally recognised in the federal constitution, but they are mentioned as "coming under the exclusive jurisdiction of the provinces". Therefore, there are a variety of municipal structures which differ from one province to another (municipal inter-municipal authorities, metropolitan and regional municipalities, towns, townships, cities, etc.).

Political Structure

Canada has a parliamentary system of governance. It has a bicameral Legislature. Parliament of Canada consists of three parts, namely, the Monarch, the Senate, and the House of Commons. The Senate has 105 members and the House of Commons has 338 members.⁹¹

Expenditure Assignment

The Federal government is given the basic powers only, to pursue continental nation-building. These include the regulation of trade and commerce, defence, navigation and shipping, banking, currency and other such matters.

Provinces and territories have their own and shared responsibilities with the federal government⁹².

⁸⁶ The note is contributed by Ms Nishu Verma under the guidance of the Project Director. Dr. Anwar Shah revised it.

⁸⁷ World Bank

⁸⁸ www.citizenshipcounts.ca/guide/elections1/federal-ridings-in-canada

⁸⁹ 'Sub national Government Around the World' by OECD, World Bank, UNDP, ILO

⁹⁰ 'A Global Dialogue on Federalism' by Anwar Shah

⁹¹ www.parl.ca/

Table 5.4.1: Expenditure Assignment at Different levels of Governments in Canada

Federal	Provinces	Municipal	Shared (Provinces+Municipal)
Regulation of trade and commerce	Education	Transport (roads and transit)	Pensions
Defence	Health Care (including hospitals)	Protection (police and fire)	Energy
Navigation and shipping	Highways	Water and sewerage	Water
Banking	Prisons	Waste	Agriculture and immigration
Currency	Natural Resources	Recreation and culture	Others
Others	Municipal Affairs	Land use planning	Education
		Social Housing	Transportation

Revenue Assignments and IGFT

Tax revenue conform shared taxation (between provinces and federal government) and own-source taxation (in particular at the municipal level). Provinces represent almost 80% of all SNG tax revenue. Provinces have wide-ranging tax autonomy. Their tax revenues comprise PIT and CIT, resource (oil, gas, mining and forestry) revenues, sales tax and payroll tax (all shared taxes), tax on gaming profits, property tax, etc. Tax collection agreements have been established to harmonize base for shared taxes between the federal government and the participating provinces. Through these agreements the federal government collects provincial income and GST taxes at no cost to the provinces provided the provinces agree to a harmonized tax base for such collection. They adhere to the federal tax base but maintain provincial discretion over tax rates. Income tax represented 50% of provincial tax revenue in 2013 and sales tax 21%. The primary source of municipal tax revenue is property tax (85% of local tax revenue). Tax bases are harmonised within all provinces, and municipalities have discretion over the tax rates. Receipts of the provincial and municipal property taxes represented 3.1% of GDP in 2014, ranking second in the OECD after France.

All the three tiers of government share General Sales Tax and specific taxes (esp. services). Whereas, provinces and municipalities shares fees from licences and permits, property taxes and other fees and taxes.⁹² Some recently implemented initiatives include: transfers of a portion of the state gas or fuel tax, revenue sharing of video lottery and casino revenues, transfer of a portion of personal and corporate income tax, and revenue sharing of traffic and other state fines.

For the most part, federal transfers to local governments flow through states and territories. One example of a federal transfer to municipalities is the GAS Tax fund which is helping the local government in building its infrastructure. Other revenues include user charges and fees (10.4% of SNG revenue), property income (dividends, rents, assets sales i.e. 6.6% of SNG revenues) and social contributions. Property income comprises proceeds from natural resources exploited on provincial territory (royalties), which can be significant for some provinces. Provinces receive direct payment

⁹² "Sub national Government Around the World" by OECD, World Bank, UNDP, ILO and A global dialogue on federalism Vol.II by Akhtar Majeed, Ronald L. Watts, and Douglas M. Brown

⁹³https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/CIB/CIB9798/98cib05

from mining companies, such as in Australia or Argentina. Charges for services (e.g. water, waste water and sewer fees) are a significant source of revenue for municipalities.⁹⁴

Municipal Governments in Canada receive around 20% as general purpose and the rest (80%) as specific purpose payments from their provincial governments. These specific payments are meant for specific activity or activities as defined by the State government. Federal general and specific purpose transfers to local governments are mostly for metropolitan projects and form an insignificant source of local revenues. Municipalities obtain federal and provincial transfers, which account for almost half of their revenue. Provinces can define their own municipal equalisation schemes. There are significant differences across the country: the local governments in the territories (Northwest Territories, Nunavut and Yukon) are highly dependent on transfers.⁹⁵

Mechanism between Federal and Provinces (Fiscal Arrangements Committee)

Design of fiscal transfers to provinces and territories i.e. the primary legal responsibility rests with the federal government (Ministry of Finance); final approval rests with the national parliament. The federal government of Canada nevertheless places strong emphasis on intergovernmental consultation and shared decision making on intergovernmental fiscal transfers

Federal-Provincial fiscal arrangements committees play a pivotal role in providing substance to such dialogues. The Federal-Provincial Relations Division in the Ministry of Finance provides a secretariat for these committees, which are made up of federal and provincial finance or treasury officials concerned with fiscal transfers. They meet periodically but exchange information and comments on a continuing basis on all technical aspects of fiscal arrangements.

The recommendations are then sent to the Continuing Committee of Officials on Fiscal and Economic Matters, made up of federal and provincial deputy ministers of finance. The committee is chaired by the federal deputy ministers of finance, usually meets on a quarterly basis.

The final recommendations of the committee for further action are forwarded to regular (typically semiannual) meetings of federal and provincial ministers of finance, provincial treasurers, chaired by the federal minister of finance. Final decisions reached at these meetings and unresolved issues are communicated to the First Ministers Conferences (attended by the prime minister of Canada and the premiers of the provinces), which are held biannually.

These committees monitor and review the fiscal equalization program on a continuing basis, conducting an intensive review every five years to suggest revisions for the enactment of new national legislation for the next five-year period.⁹⁶

Approaches and Criteria

In Canada, direct relations between the local and the federal government are minimal, partly because the provincial governments carefully guard their authority.

As "creatures of the provinces," responsibilities and powers of the local governments are only those delegated to them by the incorporating province and to which their actions must conform. The

⁹⁴ 'Sub national Government Around the World' by OECD, World Bank, UNDP, ILO

⁹⁵ www.clgf.org.uk/default/assets/File/Country_profiles/canada.pdf

⁹⁶ Anwar Shah (2007) on Institutional Arrangements for Intergovernmental Fiscal Transfers and a Framework for Evaluation.

provinces have the power to modify those responsibilities and powers and, indeed, to create, change and abolish municipalities as per the decision of the province.

Provinces via conditional grants have typically provided a large and rather confusing array of incentives to municipal governments. Grants are available to support aspects of the full range of services which includes:

Transportation: is traditionally an area relatively well supported by transfers. In 1991, 25% of Canadian local government spending on transportation (and communications) was provided by grants from provincial government.

Health Care: 46% of spending by local government on health care came from transfer by provincial government.

Education: School boards in local government receive about 75% of their funding as grants. These grants come almost entirely from the provincial government; other 25% is from their own revenues (property tax).

Unconditional funding is normally only a fraction (about 20%) of provincial conditional grants. Unconditional funding is usually allocated in an equalizing fashion designed to assist the fiscally disadvantaged localities. Equalization plays a role in the allocation of unconditional funding among municipal governments in most provinces. Three types of equalization programs across the provinces are in practice which were identified by Auld and Eden(1987). These are as follows:

Relative Fiscal Disparity Equalization: It allocates the available grant funds inversely to the relative fiscal capacities of the municipalities; e.g. inversely to the ratio of the per capita tax base of a municipality to the average.

Fiscal Gap Equalization: It looks at the difference between each municipality's own and a standard per capita tax base and allocates funds to those municipalities having a deficiency in proportion to the deficiency.

Fiscal Need Equalization: It determines standardized expenditures and standardized revenues for municipalities and provides grants to those with a deficiency between the two.⁹⁷

Relevant Points for India

Local governments in Canada come under the exclusive jurisdiction of the state (provincial) governments.

Like the case in India, the Canadian federation facilitates flow of funds to the local government through the state governments. Moreover, on an average, about 16% of the funding for all local governments and 25% of financing of rural local governments comes from the state treasuries. Local governments are supported by a strong property tax system of their own which fulfills 85% of their fiscal needs. Relations between municipal and state governments are close and continuous, while relations between local governments and the national government are limited and frequently handled

⁹⁷https://www.researchgate.net/publication/228360121_Financial_Relationships_between_Regional_and_Municipal_Authorities_Insights_from_the_Examination_of_Five_OECD_Countries and Financial Relationships between Regional and Municipal Authorities: Insights from the Examination of Five OECD Countries by Professor Melville L. McMillan Department of Economics University of Alberta

through the states. The Canadian fiscal system is distinctive in that the federal government has entered into voluntary income and GST (VAT) tax collection agreements with most of the states to support a harmonized tax system across the nation.

Fiscal provisions are not very detailed in the Canadian Constitution and keep limited provisions dealing with intergovernmental transfers or tax sharing. However, equalization principle for mandatory federal financing of fiscal equalization payments to the provinces has been enshrined in the 1982 Canada Constitution Act. Local government financing is at discretion of the provinces and territories as local governments are recognized as creatures of the provinces (states) in the Canadian Constitution. However, local governments do receive limited and insignificant specific purpose and general purpose transfers from federal governments through provinces.

RESTRICTED CIRCULATION

5.5 The Federal Republic of Germany: IGFT Framework for Local Governments⁹⁸

Facts File (Basic)

Official name	: Federal Republic of Germany
Capital	: Berlin
Type of Governance	: Federal Republic
Area	: 357,386 km ²
Population	: 82.8 million ⁹⁹
Total Income	: 42.8 million PPP US\$ ¹⁰⁰
GDP	: 36.8 million US\$ ¹⁰¹
Number of States	: 16
Number of Districts	: 401
Number of Urban Districts	: 107
Number of Rural Districts	: 294
Number of Local Governments	: 11092

Local Government in Germany

The Federal Republic of Germany consists of 16 *Länder* (states), including three city states which are Hamburg, Bremen, and Berlin. The national language of Germany is German with various regional dialects. The dominant ethnic group is German. There is a clear separation of powers in Germany. As a result, all three levels (federal, state, local) each have their distinct legislative bodies, their own executives, and judicial bodies. Policy making in Germany follows the principle of an “executive federalism”. In short, this principle maintains a functional division of competencies between the federal and the *Länder* level.

The relationship between the three basic levels of government is laid down in the German constitution, which assigns important legislative powers to federal and state governments. The exact dividing line is, however, determined by the principle of “concurrent” legislation (Art. 72 und 105 GG (German Basic Law)). German federalism is characterized by strong cooperation between the federal, the state, and the local level (*Politikverflechtung*): The federal level has most of the legislative and policy-making competences. At the same time, policy implementation and administration are mainly in the hands of the states which in turn delegate most of these functions to local authorities.¹⁰²

Article 28 of the German Constitution deals with the local governments and their set up. Local autonomy in the Federal Republic of Germany is guaranteed in Article 28 of the Basic Law and in the corresponding provisions of the state constitutions. Article 28 says that the constitutional order of the states must conform to the principles of the republican, democratic and social state governed by the rule of law.¹⁰³

⁹⁸ The note is contributed by Ms Yumna Jamal under the guidance of the Project Director.

⁹⁹ www.worldometers.info/world-population/germany-population/

¹⁰⁰ World Bank

¹⁰¹ World Bank

¹⁰² The finances of the German States, Thiess Buettner

¹⁰³ Basic Law for the Federal Republic of Germany, 2017 available at <https://www.btg-bestellservice.de/pdf/80201000.pdf>

In the Federal Republic of Germany, responsibility for the municipalities falls exclusively on the states within the framework of the distribution of powers between the Federation and the states. As a result each state has its own local government law.¹⁰⁴

In each of the sixteen states in Germany, local government is organized by the respective state, and the structure of local government, size and number of municipalities varies from one state to another.

Each council is headed by an elected mayor, known as the *Bürgermeister*, who acts as head of both the council and the administration. Main responsibilities of this tier include planning, water management, social welfare and the building and maintenance of schools. Some council also engages in cultural, economic development and energy-related activities, depending on the state.¹⁰⁵

There are around 14,000 municipalities in 16 states. They vary in size as well as population. City of Berlin is the most populous municipality of Germany (it has 340000 people) and the least populated municipality is *Wiedenborstel* (it has 10 people).¹⁰⁶

Cities constitutes the lowest level within the three administrative levels (federal, state, city) in Germany. The Federation and the States gives certain tasks to the municipalities – they are also supposed to allocate the corresponding funding. Within the framework of self-administration, the cities organize and administrate their own voluntary activities which they also have to pay from the cities own budgets.

Political Structure

The head of state in the country is the Federal President. As in Germany's parliamentary system of government, the Federal Chancellor runs the government and day-to-day politics, the role of the Federal President is largely ceremonial.¹⁰⁷

The Parliament of Germany is a bicameral legislature that consists of the elected *Bundestag* and the appointed *Bundesrat* (upper House of the German Parliament).¹⁰⁸ The Basic Law of the country also enshrines the principle of the division of powers into the Executive, Legislative and Judicial Branches.

Division of legislative authority on taxation as per the German Law

The financial constitution *Finanzverfassung* signifies the most important pillar in the German system. Each level of government has financial autonomy in the country. Funds have to follow the functions in German federal system (*Konnexitätsprinzip*).¹⁰⁹

All three tiers of government share in the personal income tax while the Centre and the States also share corporate taxes and the proceeds from the German value added tax (VAT). However, there is

¹⁰⁴ Morgan, Gerard. Fiscal Federalism in Germany, Queen's University, 2000. prezi.com/lapj15xl52-/local-government-in-germany/

¹⁰⁵ <https://www.kommunalwahl-bw.de/buergermeister.html>

¹⁰⁶ www.uni-potsdam.de/cost-locref/?wpfb_dl=463

¹⁰⁷ Wikipedia

¹⁰⁸ <https://www.britannica.com/place/Germany/Government-and-society>

¹⁰⁹ Brand, Dirk. Local Government Finance: A Comparative Study. Sun Press, 2016.

no constitutional requirement to do so, a business tax (*Gewerbesteuer*) is also shared between the three tiers of government.¹¹⁰

Principles of Division of revenue in Germany

In Germany the principles of subsidiarity and local autonomy play an important role. Each state can autonomously regulate the organization of local governments, thus there is high devolution in political and functional terms. However, allocation of resources is centralized: a great portion of revenues comes from revenue shares distributed by the federal level and state grants. Their main revenue sources are own taxes (e.g., business tax, land tax, service fees).

Article 106 of the German Basic Law regulates revenue sources to various levels of government in the country. Provision is also made for joint taxes whose revenue to be shared among all the levels of government.

Table 5.5.1: % Weightage of Major Taxes among three layers of Government in Germany

Type of Tax	%age Distribution among different levels of Government		
	Bund(Federal)	Lander(State)	Gemeinden (Local)
Personal Income Tax	42.5	42.5	15
Corporate Tax	50	50	0
Sales Tax	51.4	46.6	2
Capital Gains Tax	44	44	12

Source: Brand, Dirk. Local Government Finance: A Comparative Study. Sun Press, 2016.

Local authority financial systems in Germany

Article 28(2) of the Basic Law guarantees the municipalities local autonomy by granting them the right to manage all their own affairs within the limits set by the law. The right of self-government also includes responsibility for financial matters. The guarantee of local autonomy prohibits federal and state legislation from removing the rights of the local authorities to manage their own affairs or from restricting this right to such an extent that the substance of the autonomy is taken away from within.¹¹¹

The municipalities need income in order to be able to perform their tasks well. Their important sources of income include fees and contributions, taxes, financial allocations from the *Bund* and the *Land*, income from selling building land or income from real estate and loans. German municipalities in general are subjected to fiscal transfers.¹¹²

Fees are charged from people if a specific municipality service is used in order to increase the operative capability of the municipality. Other important sources of income for the municipalities are taxes, such as trade tax, real property tax and, proportionately, income tax or road vehicle tax. The municipalities receive state allocations from the states within the framework of local authority fiscal equalization. Other income for the municipalities can arise from charges under private law, for example, such as income from rentals and leases.

¹¹⁰ www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/CIB/CIB9798/98cib05

¹¹¹ Brand, Dirk. Local Government Finance: A Comparative Study. Sun Press, 2016.

¹¹² mgimo.ru/upload/iblock/e67/MPI:CCOI_Local%20Government.pdf

Since the sources of income listed above are usually not enough to cover all expenditure, the municipalities are allowed to take out loans. However, loans may only be taken out for investments or investment promotion measures and only if no other means of financing is possible.

Expenditure Assignment

The German Constitution assigns responsibilities to the three levels of government in the country. Similarly, states delegate some responsibilities to the local government¹¹³.

Table 5.5.2: Assignment of subjects among different layers of government in Germany

Federal	State	Local
Foreign affairs	Culture	Local health facilities
Defense	Health	Sports
Citizenship	Law and Order	Construction of schools
Railways	Education	Construction of roads
Telecommunications	Conservation of Environment	Public housing
Postal system	States' Economic Policy	Community services
Currency		
Monetary policy		

Revenue Assignment

The provision of the German Constitution specifies that most of the important revenue sources are shared in Germany. The income tax, corporation tax, and VAT, account for three quarters of total tax revenue. These are jointly shared.

The structure of local finance is also determined in greater part by the states. The municipalities derive some 35 % of their income from a share in the federal and state tax revenues. Some 50 % of their income comes from local taxes, fees and charges. The most important source in the second category is the business tax, the revenues of which the municipalities have to share with the state.¹¹⁴

Table 5.5.3: Tax Distributional Framework among different layers of Government in Germany

Federal	State	Local
<ul style="list-style-type: none"> ▪ Customs ▪ Taxes on alcohol, cars, distilled beverages, coffee, mineral oil products, sparkling wine, electricity, tobacco, and insurance. ▪ Supplement on income taxes so-called solidarity surcharge (<i>Solidaritätszuschlag</i>) 	<ul style="list-style-type: none"> ▪ Inheritance tax, real property transfer tax ▪ Taxes on beer and gambling ▪ Fire Protection tax ▪ Sales tax ▪ Excise tax 	<ul style="list-style-type: none"> ▪ Real property tax ▪ Taxes on other beverages, dogs, and inns. ▪ Trade tax

Source: Wikipedia

¹¹³ <https://www.oecd.org/regional/regional-policy/profile-Germany.pdf>

¹¹⁴ Intergovernmental Fiscal Transfers in Nine Countries: Lessons for Developing Countries *World Bank Policy Research Working Paper No. 1822*

Intergovernmental Fiscal transfers

In Germany, the transfer payments are primarily horizontal¹¹⁵, i.e. the high-income states make transfers to low income states. Germany has three schemes of intergovernmental transfer: revenue sharing, the interstate equalization payments, and the supplementary grants. All these transfer schemes are administered by the Ministry of Finance of the country.¹¹⁶

According to the Federal Ministry of Finance of Germany, “aligning the revenue of the *Länder* is meant to create and maintain equal living conditions of the entire population in all of Germany”. All of the three transfers are, in principle, unconditional transfers, i.e., that the states may freely choose how to allocate their transfer revenues within their mandate.¹¹⁷

First, the VAT revenue, which is collected by the fiscal authorities of each state, is shared among all the states. This consists of two parts: about 25% of the VAT revenue is first allocated to the states whose receipts from their own taxes (income, corporate and land taxes) fall below the national per capita average. The remaining 75% of the revenue is distributed according to equal per capita basis and, as a consequence, does not correspond to the revenue raising ability of individual states.¹¹⁸

Second, horizontal fiscal transfers from wealthy states to poor states aim to equalize fiscal capacity per capita. The fiscal capacity of every state is assessed as the sum of state own receipts and its municipal tax receipts as states are responsible for providing the municipalities with the necessary means. In principle, it is assumed that each state has an equal financial requirement per inhabitant, but some demographic adjustments are made so that, for example, city-states and sparsely populated states are given a higher per capita financial requirement. The equalization does not cover all disparities in state revenue to safeguard the autonomy of the states. Also, the fiscal equalization does not change the order of states with respect to their fiscal capacity: the states that started with the lowest capacity would have the lowest capacity also after the transfer payments.¹¹⁹

Third, federal grants are unconditional vertical transfers to states that have (even after the equalization payments) fiscal capacity that is less than 99.5% of the average fiscal capacity. The general grants correct for 77.5% of the remaining difference. In addition, there are so-called specific purpose grants, such as the present Solidarity Pact-grant to eastern states, which compensate individual states due to special burdens that they have and which require additional fiscal capacity. For example, in the eastern states, this aimed to improve the lagging infrastructure and address the additional fiscal capacity needed due to higher structural unemployment.¹²⁰

Grants are very important for the German local governments as compared to the states. Including revenue sharing, the local jurisdictions get about 50 percent of their total revenue as grants from other jurisdictions.¹²¹

¹¹⁵ Intergovernmental Fiscal Transfers in Nine Countries: Lessons for Developing Countries
World Bank Policy Research Working Paper No. 1822

¹¹⁶ <https://www.queensu.ca/igr/sites/...queensu.../watts/fiscall/federalismGermany2000.pdf>

¹¹⁷ <https://www.queensu.ca/igr/sites/...queensu.../watts/fiscall/federalismGermany2000.pdf>

¹¹⁸ <https://www.queensu.ca/igr/sites/...queensu.../watts/fiscall/federalismGermany2000.pdf>

¹¹⁹ <https://www.queensu.ca/igr/sites/...queensu.../watts/fiscall/federalismGermany2000.pdf>

¹²⁰ <https://www.queensu.ca/igr/sites/...queensu.../watts/fiscall/federalismGermany2000.pdf>

¹²¹ A Global Dialogue on Federalism Volume 4, Anwar Shah.

Mechanism:

The Stability Council is a joint body of the German Federation and the federal States. It was established in 2010 replacing Financial Planning Council as part of the second stage of Germany's federal reforms and is enshrined in Article 109(a) of the Basic Law. The Stability Council consists of:

1. The Federal Minister of Finance (chair);
2. The state minister responsible for finance (co chair);
3. The Federal Minister of Economics and Energy

The chair and the co chair exchange the positions by rotation. The Stability Council's main task is to monitor the budgets of the Federation and States. The Council identifies the forthcoming financial requirements.

Approaches and Criteria

Local government differs considerably in size and show a rather skewed distribution in terms of population, size and density. German local governments receive funds from the federal and state governments on the basis of the following criteria:

1. Fiscal Capacity: The fiscal capacity of local government in terms of raising tax and tax base is crucial indicator in the process of IGFT to local government.
2. Expenditure Needs: The expenditure needs of the local government depends on factors like¹²² size of the population, particular expenditure needs of certain areas and age-specific need of the society is also a major factor in allocating funds to local government in Germany. Germany witnessed large influx of immigrants in the last decades making it demographically rich which calls for more funds to be spent on certain general will. Greater subsidies are provided to those cities which have large population.¹²³
3. Population Density: The large differences in population density indicate that the states differ in the role they play in the spatial structure of the country. Larger states such as Bavaria or North Rhine-Westphalia comprise rural as well as urbanized areas and thus contain cities. This is different from the smaller states, in particular, the city states of Berlin, Hamburg and Bremen. The solution in the German equalization system is to weight the fiscal need of the city states in the equalization system. More precisely, the fiscal need of the three city states is obtained using a fictitious population size, which is 135% the actual population size.¹²⁴
4. Unemployment: Large numbers of unemployed have little to spend and attract social problems. State government administers funds to those local governments where unemployment rate is high. The city of Bremen receives financial incentives owing to its 9.7 percent of unemployment.¹²⁵
5. Local Government Performance: Local government performance is expressed in terms of financial as well as non-financial performance. Financial government performance comprises three

¹²² www.queensu.ca/igfr/sites/webpublish.queensu.ca.igfrwww/files/files/WorkingPapers/Archive/2004/2004-6Boadway_Watts2004.pdf

¹²³ www.kipf.re.kr/CopenhagenWorkshop/TheCopenhagenWorkshop2007.pdf

¹²⁴ www.cimajlobal.com/Documents/Thought_leadership_docs/Academic-research/Financial_Resilience_Academic_Report.pdf

¹²⁵ Buettner, Thiess. *The Finances of the German States*, available at revistes.eapc.gencat.cat/index.php/rdp/article/download/2099/1132-buettner-en.pdf

dimensions i.e. the ability to pay for long-term obligations, the ability to pay for the existing level and quality of services now and in the future, the ability to generate sufficient revenues to pay expenditures. Nonfinancial government performance comprises some key dimensions i.e. quality of services, efficiency in service delivery, goal effectiveness, responsiveness of services, success in developing innovations, reputation of work excellence, etc.¹²⁶

Relevant Points for India

German system recognizes and protects the local government like the Indian system. Article 28 of the Basic Law essentially assures that local authorities are self-governing as far as local affairs are concerned. Grants are important for the German local governments which constitute about 50 per cent of their total revenue.

In fiscal terms, the best feature of German system is tax sharing, which is specifically provided in the Basic Law (article 106). The taxes that are shared in the country are personal income tax, value-added tax, and business tax. The Constitution provides that a share of the revenue from the income tax be passed on to the local government by the states. Local governments exclusively get the revenue from the property tax and tax on other beverages, dogs, and inns.

Fiscal equalization is undertaken in Germany for equity, such programs are known by the name of 'solidarity' in the country to function as the fiscal glue for national unity. The German Constitution mandates the federal government to share some part of its revenue with the state and local governments. Local authorities are mainly active in the sectors of social welfare, health care, environment, sports, recreation, culture, construction, public utilities and public enterprises. The rationale provided in the German Basic Law for the local government share is that the local communities should get a percentage of the income tax paid by their population. The economic wellbeing of a local community thus has an impact on the revenue from joint taxes that accrue to that community.

The third tier is self-governed and responsible for "all matters of local concern", where the subsidiary principle applies. In infrastructure development, local governments contribute about two-thirds of public investment. Apart from its own taxes, the local government receives 'Recurrent state grants' in the form of equalization and co-financing. Some federal grants (related to social causes) are channeled through state budgets.

¹²⁶ https://www.researchgate.net/.../261582480_Local_government_finance_in_Germany

5.6 South Africa: IGFT Framework for Local Government¹²⁷

Facts File (Basic)

Official name	: South Africa
Capital City	: Cape Town is legislative capital, Pretoria is administrative capital, and Bloemfontein is judicial capital ¹²⁸
Type of Governance	: Federal
Number of Tiers	: 3
Area	: 1,213,090 sq. Km ¹²⁹
Population	: 58.06 million
Total Income	: 86.448 USD bn (Dec 2018) ¹³⁰
GDP	: 34,941.93 crores USD (2017) ¹³¹
Number of States	: Nine
Number of Districts Municipalities	: 44
Number of Metropolitan Municipalities	: 8
Number of Local Municipalities	: 205
Number of Local Governments	: 257 ¹³²

Local Government in South Africa

Constitution provides for three types of municipalities: Category A - metropolitan municipalities have exclusive municipal executive and legislative powers in their jurisdictions; Category B - local municipalities share executive and legislative authority in an area with a Category C- districts municipalities under which they fall. Districts municipalities have executive and legislative authorities in an area that includes more than one municipality.

Constitution does not distinguish between municipalities in urban and rural areas; the Department of Cooperative Governance has developed a methodology to classify municipalities, which groups municipalities into seven categories using variables such as poverty levels and access to basic services, among others (Table 5.6.1).¹³³

Section 214(1) of the Constitution requires that every year a Division of Revenue Act determine the equitable division of nationally raised revenue between national government, the nine provinces and 257 municipalities. Section 229 provides local government with significant original fiscal powers, not granted to provinces.¹³⁴

¹²⁷ The note is contributed by Ms Nishu Verma under the guidance of the Project Director. Prof. Nico Steytler revised it.

¹²⁸ https://www.google.com/search?q=capital+of+south+africa&rlz=1C1E0DB_enIN700IN700&oq=capital+of+south+africa&qs=chrome.69i57.8423j0j1&sourceid=chrome&ic=UII-8.

¹²⁹ Department of Economic and Social Affairs, Population Division. World Population Prospects: The 2017 Revision.

¹³⁰ <https://www.ceicdata.com/en/indicator/south-africa/gross-national-product>.

¹³¹ World Bank.

¹³² Information provided by Prof. Nico Steytler, Dullah Omar Institute of Constitutional Law, University of the Western Cape, South Africa.

¹³³ 'The Effectiveness of Transfers to Local Municipalities for Rural Development' by Nomfundo Vacu.

¹³⁴ Information provided by Prof. Nico Steytler, Dullah Omar Institute of Constitutional Law, University of the Western Cape, South Africa.

Table 5.6.1 Categorization of Municipalities in South Africa

Class	Characteristics	Number
Metros	Category A municipalities	8
Secondary cities (B1)	All local municipalities referred to as secondary cities	19
Large towns (B2)	All local municipalities with an urban core. These municipalities have large urban dwelling populations, but the size of their populations vary hugely.	26
Small towns (B3)	Municipalities without a large town as a core urban settlement. Typically they have relatively small populations, of which a significant proportion is urban and based in one or several towns. Rural areas in this category are characterized by the presence of commercial farms because these local economies are largely agriculture-based. The existence of such important rural areas and agriculture sector explains why they are included the analysis of rural municipalities.	113
Mostly rural (B4)	Municipalities that contain no more than one or two small towns and are characterized by communal land tenure and villages or scattered groups of dwellings, and are typically located in former homelands.	68
Districts (C1 and non-rural)	District municipalities that are not water service authorities.	9
Districts (rural C2 and some C1)	District municipalities that are water service authorities.	35

Source: 'The Effectiveness of Transfers to Local Municipalities for Rural Development' by Nomfundo Vacu

Sections 9 and 10(4) of the Intergovernmental Fiscal Relations Act (1997) act set out the consultation process by the Financial and Fiscal Commission (FFC) to be followed by Parliament, including considering recommendations made regarding the equitable division of nationally raised revenue among provinces and municipalities. The system of government in South Africa is generally stable, with a clear separation of powers between the executive, the legislature and the judiciary. However, given that the decentralized system of government has only been in existence for about 25 years, some aspects of it are still evolving. The assignment of functions to all three spheres of government in South Africa has been provided in the Constitution.¹³⁵

Political Structure

The constitution establishes South Africa as a constitutional republic founded on the principles of democracy. South Africa has a bicameral legislature. Parliament of South Africa consists of two parts namely, National Assembly and National Council of Provinces. National Assembly has 400 members and National Council of Provinces has 90 members.

The three tiers of government are named as: national, provincial and local governments. Local level government in South Africa consists of municipalities of various types. The largest metropolitan areas are governed by metropolitan municipalities, while the rest of the country is divided into district municipalities, each of which consists of several local municipalities.¹³⁶

¹³⁵ 'A Global Dialogue on Federalism' by Anwar Shah and Explanatory memorandum to the division of revenue (2012 Budget Review).

¹³⁶ Intergovernmental Finance in Five Emerging Market Economies" by Tapas K. Sen and "A Global Dialogue on Federalism by Anwar Shah..

Expenditure Assignment

As per South Africa's constitution, the functions have been assigned to the three spheres of government, which is similar to several other federal systems. However, national government policies often influence provincial and local government spending indirectly through co-operative agreements and legislations setting norms and standards¹³⁷.

Table 5.6.2: Expenditures of different levels of Government in South Africa

National	Province	Local
Police, justice and prison	School	Electricity
Defense	Health	Water
External Affairs	Welfare	Homelessness
Higher education	Housing	Sanitation
Housing	Constructing & maintaining provincial roads	Municipal Administration
Other functions of nationwide coverage		City Streets
		Street lights
		Garbage Collection

Revenue Assignments

Revenue assignment among the three levels of government in South Africa is mentioned in Table 5.6.3.

Table 5.6.3: Revenue distribution at different levels of Government in South Africa

National	Provincial	Local
Income & Corporate Tax	Gambling Taxes	Property Taxes
VAT	Motor Car License Fees	Turnover/Payroll Regional Levies S
Excise	User Fees On Hospital Services	User Charges on Electricity
Customs	Surcharge on Personal Income , Income Tax @	User Charges on Water
Fuel Levy		Surcharge on Fees For Services of Municipality

Notes¹³⁸: @ only *de jure*, provincial government can levy only with approval in terms of national legislation. S abolished in 2006

Intergovernmental Fiscal Transfers

The Constitution, in section 214(1) (a), states that an Act of Parliament must provide for the equitable division of revenue raised nationally among the national, provincial and local government.

The share of local government allocations to the total nationally raised revenue has been increased, from 6.3% in 2006/7 to 9.0% in 2015/16, and is projected to reach 9.4% in 2018/19.

¹³⁷ 'Intergovernmental Finance in Five Emerging Market Economies' by Tapas Sen et al and Explanatory memorandum to the division of revenue (2012 Budget Review).

¹³⁸ Information provided by Prof. Nico Steytler, Dullah Omar Institute of Constitutional Law, University of the Western Cape, South Africa

Rural municipalities receive a larger share of their revenue from government transfers in comparison to other types of municipalities. Between 2008/09 and 2010/11, transfers accounted for more than 40% and more than 60% of the total revenue for B3 and B4 municipalities respectively.¹³⁹

Equitable Share

1. National government makes unconditional allocation to municipalities in compliance with the constitutional provisions for an equitable share of nationally raised revenues every fiscal year and to provide additional general revenue sources for local government. The grant is directly transferred into the primary bank account of a municipality.
2. LGES- Local Government Equitable Share (the largest unconditional grant for developmental functions).
 - a. The funds are determined by the incidence of poverty in municipality.
 - b. Access and non-access to basic services (water and sanitation, electricity and refuse removal),
 - c. Size of the population and the number of councilors included in the LGES is the Special Support for Councilor Remuneration to grade 1, 2 and 3 municipalities.
3. RSC is Second unconditional grant i.e. Levy Replacement Grant.

Conditional Grants

Municipalities receive conditional grants from national government and provincial governments to fund various priorities identified by the respective spheres in local areas. It comes as either direct transfers or indirect transfers to municipalities.

Direct transfers from national government

National government makes direct transfers to municipalities for infrastructure developments, operation & capacity building, health, water supply and disaster management.

Indirect transfers from national government

It refers to funds that are transferred to public entity Eskom in terms of Integrated National Electrification Programme or a national department e.g. Department of Water Affairs in terms of the Regional Bulk Infrastructure Grant for the delivery of certain services on behalf of municipalities that do not have adequate capacity to implement the grant themselves. These are mainly funding for infrastructure development. Indirect transfers are made for electrification, regional bulk water systems, rural household infrastructure, neighborhood development and electricity demand side management.

Direct transfers from Provincial Government

Provincial governments enter into service delivery agreements with municipalities to perform certain functions on their behalf. For this, municipalities receive transfers from provincial government departments.

¹³⁹ 'The Effectiveness of Transfers to Local Municipalities for Rural Development' by Nomfundo Vaco

Transfers from Districts to Municipalities

District municipalities make allocations from its equitable share and conditional grants to local municipalities in their areas. Districts are required to develop payment schedules for such transfers that are monitored by the National Treasury¹⁴⁰.

Mechanism (Financial and Fiscal Commission)

South Africa's Financial and Fiscal Commission was established in 1994. The commission was to have 18 members: nine members appointed by the President and one member designated by each of the nine provincial cabinets. In 1996, it was extended to 22 and reduced to nine persons in 2001.

The constitutional mandate for the FFC is to make recommendations on:

- The system of sharing of revenues between national, provincial and local governments (vertical division); and between provinces and between municipalities (horizontal division);
- Taxes, surcharges, and user charges to be imposed by provincial governments;¹⁴¹

Approaches and Criteria

In the case of local governments, important difference is recognized in the local governments equitable shares. The formula takes into account:

1. Basic municipal services within the local territories including the following;

- Level of rural transport services.
- Municipal infrastructure.
- Level of rural electrification.
- Water and sanitation at clinics and schools.
- Level of electrification of clinics and schools.
- Provision of free basic services: water and electricity for indigent.

2. Number of poor households.

3. Fiscal capacity of the municipalities.

4. An allocation for the cost of governance based on size of council.¹⁴²

Need Factors Used for Grant Financing of Health Care

Percentage female;

Percentage children under 5;

Percentage living in rural area;

Percentage older than 25 without schooling;

¹⁴⁰ 'Intergovernmental Finance in Five Emerging Market Economies' by Tapas K Sen et al and 'A Practitioner's Guide to Intergovernmental Fiscal Transfers' by Anwar Shah and Explanatory memorandum to the division of revenue (2012 Budget Review).

¹⁴¹ 'Institutional Arrangements for Intergovernmental Fiscal Transfers' and a Framework for Evaluation by Anwar Shah and 'Intergovernmental Finance in Five Emerging Market Economies' by Tapas K Sen et al.

¹⁴² The Effectiveness of Transfers to Local Municipalities for Rural Development by Nomfundo Vacu and Khumalo, Bongani and Mokate Renosi (2007) Republic of South Africa, In Anwar Shah (ed.) A Global Dialogue on Federalism. Vol. 4. Forum of Federations and iacfs, Montreal: McGill-Queens University Press.

Percentage unemployed;
Percentage living in traditional dwelling, shack or tent;
Percentage without piped water in house or on site;
Percentage without access to refuse disposal;
Percentage without access to phone;
Percentage without access to electricity;
Percentage of living in household headed by a woman¹⁴³

Relevant Points for India

South Africa grants constitutional status to local government like India. Both the countries have a three-tiered federal arrangement. Like India, the federal and the provincial governments, both transfer financial resources to the local governments. Property tax is the main tax instrument at the hands of local governments. Though the Constitution does not distinguish between local government in urban and rural areas, the national government has developed a very elaborate system to classify municipalities in seven categories using variables such as poverty levels, fiscal needs, fiscal capacity, cost of governance, and access to basic services. Rural municipalities comparative to their population size receive large funds from the federal government than the urban municipalities.

Constitution of South Africa maintains that the federal and provincial governments cannot impede the ability of the local government to perform its functions or to raise its revenue. It provides for the enactment of legislation to divide revenues equitably between national, provincial and local spheres every year. The process requires the government to consult the FFC and an explanatory memorandum in the Division of Revenue Bill to state how the FFC's annual recommendations have been taken into account in the revenue allocation.¹⁴⁴

Local governments have substantially greater tax powers than provinces. Almost two-thirds of their expenditure requirements are met by their own sources of revenues. However, the proportion of revenue coming from transfers and own revenues varies dramatically across municipalities. While poor rural municipalities receive most of their revenue from transfers, urban municipalities raise majority of their revenues from own sources. They can levy property taxes, payroll regional levies on businesses and user charges on electricity and water. Local governments get conditional as well as unconditional grants (equitable share) from the federal government.

Conditional and unconditional grants (equitable share) are transferred by national government to local government to meet development expenditure, parts of establishment cost and O&M cost. The share of local government revenue in the national kitty was 6.3 per cent in 2006-07 and increased to 9.4 per cent in 2018-19. The grant is transferred directly into the primary bank account in local government.

¹⁴³ World Bank, 2006

¹⁴⁴ 'Institutional Arrangements for Intergovernmental Fiscal Transfers and a Framework for Evaluation' by Anwar Shah and 'Intergovernmental Finance in Five Emerging Market Economies' by Tapas K. Sen

CHAPTER-6

Conclusions and Suggestions

Article 280 (3) bb of the Constitution has been addressed by five UFCs so far. They have devolved grants for *Panchayats* and attempted to a) equalize basic civic services, b) provide incentives for strengthening accounts and audit and c) set rules to strengthen SFCs. The recommendations have been subject to considerable criticism mainly on the following grounds

- The grants provided are too small to make any difference to the functioning of about 2.5 lakh *Panchayats*.
- The formula used for the allocation among the States were needlessly complicated and proved to be ineffective in promoting the cause of decentralized governments.
- The contours of decentralization across the States have never been very clear and each UFC adopted an *ad hoc* approach that too of different varieties breaking the continuity.
- The UFCs attempted, though half-heartedly, to enhance the capacity of *Panchayats* in a supply-driven way. This supply-driven approach has not worked and is unlikely to make any impact in the near future when *Panchayats* themselves have no incentives to keep their own house in order and face the hard budget constraints.
- Relative shares of the States in the total grants allocation for *Panchayats* marked significant changes from the award period of one UFC to another. This shows the lack of seriousness on the part of UFCs.
- While addressing Article 280(3) bb of the Constitution, some UFCs considered only *Gram Panchayats* and left the other two rungs i.e. District and Block *Panchayats*. While the Constitution prescribes the three-tier *Panchayat* system, including District and Block, the recommendations seem inconsistent with the constitutional provision. This has weakened both District and Block *Panchayats* in many States.
- All UFCs except the 13th Finance Commission ignored good practices in other federal countries with similar systems and institutions.
- Many UFCs imposed conditionalities on *Panchayats* in the grants allocation and called them incentives. The intention was micro management. It failed as expected. Grants cannot be withheld if mandatory constitutional provisions are fulfilled. Grants could have been attached towards the fulfilment of Constitutional obligations imposed under the 73rd Amendment and strengthening the institutions such as SFCs, district and metropolitan planning committees and *Gram Sabha*.

In a rural economy, according to a survey conducted in Karnataka, substantial amount comes from the grants that flow from Union to the States in the form of vertical programmes. Out

of this, the *Panchayats* have the autonomy only for a very little amount. But, they are responsible to provide local public goods. In this connection, the 10th FC rightly pointed out the following-

“The *Panchayats* are late entrants in our federal democratic structure but their action or inaction is likely to affect the welfare of the people and area under their jurisdiction more directly than either the actions of the State or the Union” (*GoI, 1995 p.47*)

In this context, apart from the direct reference, where the 15th FC has been asked to suggest measures to augment the Consolidated Fund of the State of supplement the resources of the *Panchayats*, there is also reference to “consider proposing measurable performance based incentives for States, at the appropriate level of Governments”, in areas including “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”.

In this regard, the following propositions can be made:

- Firstly, in the context of the provision of local public goods, a reassessment of the revenue resources and public expenditure by *Panchayats* as a proportion of total public expenditure is necessary.
- Secondly, in the absence of borrowing by *Panchayats* the actual expenditure is bound to be equal to the actual revenue receipts including transfers. Therefore, the provision of local public goods is settled at the existing tax prices. But, the arrangement is set at a very low level of quality and adequacy of local public goods.
- Thirdly, in the decentralized provision of local public goods, differential preferences and differential costs are the key to search for efficiency particularly in the absence of any update of the Zakaria Committee (*GoI, 1963*) estimates determining costs of basic public services at different geographical areas i.e. hilly, coastal, desert, forest and plain.
- Fourthly, the pre condition for optimal goods decision is adequacy of institutions entrusted with local public goods. Autonomous SFC, district planning committee, gram sabha, elected representatives, local fund audit, social audit, etc are the key to decentralized governance. At present, these institutions are peripheral to the State Governments, lacking in technical activities and of true autonomy.
- Fifthly, the UFC can play a vital role by augmenting the strength of institutions required for democratic local governance, by focusing on information, incentives and institutions to ensure good arrangements of account, audit and accountability framework.

Practices in Other Federations

It may be argued that the scheme needs to be consistent with the practice adopted in other federations of the world. In this context, salient features of select practices in other federations are given below:

- In Australia, the state governments are required to establish the State Grants Commission (SGC) for distributing the tax sharing grants among the local governments. The federal government requires that the fund be distributed among local governments through SGC in three parts i.e. 20% on a per capita basis; 30% on a relative needs basis; and 50% on a fiscal equalization basis. The SFC of India is similar to the SGC of Australia and can be strengthened by the 15th FC through this mechanism.
- In Brazil, federal taxes on production and income contribute substantially in a Municipalities Participation Fund which is divided among local governments. Municipalities get their share from the royalties of the minerals excavated in their jurisdictions.
- In Argentina, central revenue is shared with the States and local governments (through state government) under the National Tax Sharing Law. Though no criteria or percentages are mentioned at the federal level, it says that States must share part of the central shared taxes with their local governments.
- In Germany, tax sharing is provided in the Basic Law. The Constitution provides that a share of the revenue from income tax be passed on to the local governments by the States.
- In Canada, local government financing is at the discretion of the provinces and territories. However, they receive specific purpose and general purpose transfers from federal governments through provinces.
- In South Africa, local governments are entitled to an 'equitable share' of national revenue in terms of Section 214 of their Constitution. Though the Constitution does not distinguish between local governments in urban and rural areas, the national government has developed a very elaborate system to classify local governments into seven categories using variables such as poverty levels, fiscal needs, fiscal capacity, cost of governance, and access to basic services. Through this mechanism, rural local governments receive large funds from federal government than the urban municipalities.

It is evident from the above practices that central revenue is shared with local governments in almost all federations and grants are also treated as an instrument to strengthen intergovernmental institution e.g. SFC. The contribution of the municipality's jurisdiction in value addition under the Goods and Services Tax is also counted while making IGFT arrangements. In addition, municipalities get their share from the royalties of the minerals excavated in their jurisdictions.

Other Instruments

No doubt the task which the 15th FC is enjoined under the Terms of Reference to make an assessment of the revenue gap of the *Panchayats* separately, over and above the gap of the State Government, is Herculean given the time and resources at its disposal. That apart, given the acute resource constraint at all levels of government, some form of top down budgeting cannot possibly be avoided. Hence, some idea of the overall amount that can be devolved from the Centre is essential. In this connection, the 15th FC could decide the appropriate level of central grant allocation to the *Panchayats* with a view to increase the size of Panchayat expenditure as a proportion of total government expenditure.

In the medium term, the 15th FC could bring the revenue expenditure of the local governments to the level of at least 10 percent of total public expenditure. At present, the *Panchayats* public expenditure in Maharashtra as proportion of total State expenditure is the highest. This is followed by Karnataka and Kerala (*Alok, 2014*). However, the pattern is different across States. District *Panchayats* are strong in Maharashtra whereas village *Panchayats* are big and strong in Kerala. In the long run, the share of expenditure of the local governments in total public expenditure should be raised to about 20 percent which is the international norm of developing countries.

The identification of basic civic services that could be considered on a priority basis could be the consideration of the 15th FC. The desired objective would be to ensure access to basic civic services for all citizens of India through central grants and topping it with State grants. In this connection, the practice of South Africa could be considered, by which the national government undertakes to fund a very high proportion of the basic civic services to the citizens particularly poor on condition that the local governments should keep it to the extent possible. It would be difficult for the 15th FC to devolve a very large proportion of grants for the basic services e.g. sanitation, drinking water, primary health, rural roads, etc. but a small beginning can be made. It is to be emphasized at this point that these civic services are absolutely basic to the nation as a whole. One can call them universal basic services similar to the idea of universal basic income.

The complications involved in the implementation strategy are known in view of the heterogeneity and varying capabilities of the subnational governments. But the basic rule could be to protect simplicity by limiting the number of objectives to be accomplished by each policy instrument. Since, the fiscal transfer from the UFC is ordained through State governments; the 15th

FC could suggest the SFC to make *inter se* distribution among *Panchayats* and Municipalities within the State on these lines. It is expected that the States will adopt uniform accounting systems to follow accepted principles, prescriptions for audit procedures, etc. In this, the role of the SFC is crucial.

The 15th FC could reiterate and recommend a 'permanent SFC cell' with a budgetary provision in each State, probably located in the Department of Finance of the State with adequate staff to continuously monitor local government finances including development fund transfers from the line ministries. The unit could also develop an extensive data system in consultation with the State statistical unit so as to facilitate effective monitoring and evaluation.

It is believed that political masters at higher levels in States seem to be reluctant to devolve powers to *Panchayats*, but the minimum set of functions, finances and functionaries may be laid down which should be devolved to *Panchayats*. Since the capacity of *Panchayats* across States is different, any compulsion in this regard may not be appropriate. But, one thing can easily be attached to grants Article 275 which would be meant for *Panchayats*. It is the fulfillment of obligations under Part IX of the Constitution such as the establishment of an SFC in time, placing its report in the State Assembly with an action taken report within six months. The 15th FC could incentivize States to create an enabling environment for *Panchayats* to function under an accountability framework. There cannot be any criticism for creating the incentive framework and imposing conditionalities to Article 275 grants so long as they flow from the Constitution. In any case, the distribution formula must give appropriate weight to progress made in regard to functional, financial and administrative devolution by States. Such devolution by States are quantified and compared in devolution index that has been the basis for the Award by the Prime Minister to high ranked States every year on *Panchayat Day*. Dimensions and indicators of the index are given in chapter IV. The States have started comparing themselves on the basis of the indicators set under the index.

The final suggestions are five: a) the 15th FC could recommend grants for basic civic services of the State on a per capita basis; b) the grant should be financed out of the net Union Tax Divisible Pool at specified percentage; c) It should not result in the reduction of the existing level of such fiscal transfer to *Panchayats* in States; d) It has to be distributed partly on per capita basis and partly

on the principles of horizontal distribution among States, e) a large portion of the grant could be earmarked to strengthen institutions including SFC.

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Annex- I

Annex- I: State wise assignment of revenue handles to Panchayats at each rung

Sl. No.	States	Revenue Handles Assigned to Panchayats									
		Tax Revenue Receipts					Non- Tax Revenue Receipts				
		Taxes	Levied/Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied/Collected	Appropriated	Deposited	Provisions
1.	Andhra Pradesh (Gram Panchayat-V, Mandal Parishad-I, Zilla Parishad-D) Andhra Pradesh Panchayat Act, 1994 [A.P PA, 1994] S/60-Taxes levy by Gram Panchayats S/61-House Tax S/63-Tax on advertisement (Repealed by Andhra Pradesh SGST act, 2017. S/69-Duty on transfers of Property	House tax	V,I	V,I,D	GF	S/60, S/61,	Surcharge on seigniorage Fee ¹⁴⁵	V	V	GF	S/60, S/74
		Kolagaram, or Katarusum ¹⁴⁶	V	V	GF	S/60, S/74	Fees for the occupation of building (chavadies and sarais)	V	V	GF	S/60(3)(v)
		Vehicle tax (optional)	V,D	D	SF	S/60 S/70	Fees for use of porambokes or communal lands	V	V	GF	S/60, S/74
		Tax on agricultural land	V	-	GF	S/60,	Income from Mandal Parishad market	VI	V,I	IF,GF	S/112, S/74
		Duty on Transfer of Property (Indian Stamp Act, 1899)	V,I,D	V,I,D	GF, IF, DF	S/60, S/69	Fees for the temporary occupation of village sites, roads and other similar public	V	V	GF	S/74
		Land Cess ¹⁴⁷	V,I,D	V,I,D	DF	S/60(2)(i ii)	Income from endowments and trusts	V	V	GF	S/74
		Tolls and taxes (Public Health) ¹⁴⁸	V	-	GF	S/74	Payments from Market Committee ¹⁴⁹	I	V,I	GF	S/74
					Maintenance of cattle Pounds(Sums	S	-	GF	S/52		

¹⁴⁵ collected by the Government on materials other than minerals and minor minerals quarried in the village

¹⁴⁶ Tax on the village produce sold in the village by weight, measurement or number subject to such rules as may be prescribed

¹⁴⁷ S/78 Andhra Pradesh District Boards Act, 1920

¹⁴⁸ Sections 117 and 118 (Andhra Area) Public Health Act, 1939 (Act III of 1939)

¹⁴⁹ S/11, Andhra Pradesh (Andhra Area) Commercial Crops Markets Act, 1933

S/70-Vehicle Tax S/71-Special tax S/73-Write off irrecoverable amount S/74-Gram Panchayat Fund S/104-Public markets S/106-Fee for licence(private market)						and sale proceeds)				
	Entertainment tax ¹⁵⁰	V	V	GF	S74(vi)	Income from fisheries	V	V	GF	S/74
	Education Tax	V	V,I,D	SF ¹⁵¹	S/60(5)(a)	Water Rate ¹⁵²	S, I,D	-	ST	S/60
						Inam Assessment ¹⁵³	S,V	-	GF, ST	S/74(xi)
						Income from Ferry	D	D,V	DF,GF	S/74(xii) S/57
						Income from leases of govt. properties under G.P	-	-	GF	S/74 (xviii)
						Income from fines received by Magistrate(offences-village)	-	-	GF	S/74 (xix)
						Income from investments from G.F	-	-	GF	S/74 (xxi)
						fees for right to expose goods for sale in such market	V	V	GF	S/104(a)
						fees for the use of shops, stalls, pens or stands in such markets	V	V	GF	S/104(b) S/106
					fees on vehicles including motor vehicles or pack-animals bringing or persons carrying, any goods for sale in such	V	V	GF	S/104(c) S/106	

¹⁵⁰ S/13, Andhra Pradesh Entertainment Tax Act, 1939

¹⁵¹ Local authority compensated for expense incurred. 'Local Authority', means, Mandal and Zilla Parishad.S/37, Andhra Pradesh Education Act, 1981

¹⁵² Andhra Pradesh Water Tax Act, 1988

¹⁵³ (Quit rent, Jodi, kattubadi) Andhra Pradesh(Andhra Area) Inams Assessment Act, 1995

							markets;				
							Use of Slaughter Houses (Rent and Fee)	V		GF	S/117
							fees on animals brought for sale into or sold in such market	V	V	GF	S/104(d) S/106
							License fees on brokers, commission agents, weighmen and measures practicing their calling in such market.	V	V	GF	S/104(e) S/106 S
2.	Arunachal Pradesh	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchayat-V, Anchal Samiti-I, Zilla Parishad-D)	Tax on Lands and buildings	V	V	GF	S/45	Fee (Sanitary Arrangements @Pilgrimage, fairs)	S,V	V	GF	S/46(1)(i)
	• Arunachal Pradesh Panchayat Raj act, 1997	Duty on Transfer of Property	V	V	GF	S/45(4)	Water rate	V	V	GF	S/46(1) (ii)
	S/46-List of fees/rate/tax	Duty on Entertainment use(lands, buildings)	S,V	V	GF	S/45(5)	Lightning rate	V	V	GF	S/46(1) (iii)
	S/81-Anchalik Samiti/AS Fund	Tolls (person, vehicles, Animals)	V	V	GF	S/46(1)(vi)	Conservancy Rate	V	V	GF	S/46(1) (iv)
	S/99-ZP Fund	Ferry toll	V,I,D	V,I,D	GF	S/46(1)(vi)	Fee on License (Trade, wholesale or retail)	V	V	GF	S/46(1)(v)

3.	Taxes	Levied Collecte d	Appr opriat ed	Dep osit ed	Provisio ns	Non-Taxes	Levied Collect ed	Approp riated	Deposit ed	Provisions
Assam (Goan Panchayat-V, Anchalik Panchayat-I, Zilla Parishad- D) • Assam Panchayat Act, 1994	Tax on House and structures	V	V	GF	S/25(1)(a)	Fee(Sanitary Arrangments @Pilgrimage, Fairs)	V,D	V,D	GF, DF	S/25(2)(a)
	Tax on Professio n trades and callings	V,I	V,I	GF,I F	S/25(1)(b) S/57(1)(f)	Water Rate	V,I,D	V,I,D	GF, IF, DF	S/25(2)(c), S/57(1)(d) S/95(1)(b)(v)
	Tax on Sale of Firewood and thatch conservan ce and slaughter house	V	V	GF	S/25(3)(a)	Lightning Rate	V,D	V,D	GF, DF	S/25(2)(d) S/95(1)(b)(i v)
	Tax on Private Flat and Private fisheries	V	V	GF	S/25(3)(b)	Conservancy Rate	V	V	GF	S/25(2)(e)
	Tax on cultivable land lying fallow for 2 years	V	V	GF	S/25(3)(d)	Cess or Fee (Registration of cattle sold)	V	V	GF	S/25(3)(e) (i)
	Road Tolls (Persons, vehicles, or animals)	I	I	IF	S/57(1)(a)	Fee(Cinema Hall, bricks, tile klins, saw mills, timber depots, rice mills, hullers, fairs, confectionary and bakery, private fisheries, vegetable	I,D	I,D	IF, DF	S/57(1)(g) S/95(1)(b)(i ii)
	Tax on supply of water and lightning	I	I	IF	S/57(1)(c)					

	Cess on carts, carriages, bicycles, boats, rickshaws	V,D	V,D	GF, DF	S/25(3)(e)(iii), S/95(1)(b)(i)	garden)				
	Tolls(Ferry)	I,D	I,D	IF,DF	S/57(1)(b), S/95(1)(a)	Surcharge of Land revenue	I	I	II'	S/57(1)(c)
						License fee (Tea stall, hotel, sweet meat, restaurants)	V	V	GF'	S/25(3)(e)(iii)

4.	Bihar (Gram Panchayat-V, Panchayat Samiti-I, Zilla Parishad- D)	Taxes	Levied / Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied / Collected	Appropriated	Deposited	Provisions
	Bihar Panchayat Raj Act, 2006.	Tax on Occupants of holdings	V	V	GF'	S/27(1)(a)	Fees on registration of boats & vehicles	V,I,D	-	-	S/27(2)(a) S/55(1)(b)(i) S/82(1)(b)(i)
		Tax on Profession trades, callings and employment	V	V	GF'	S/27(1)(b)	Fee(Sanitary Arrangements @Pilgrimage, Fairs)	V,I,D	V,I,D	GF, II', DF'	S/27(2)(b) S/55(1)(b)(ii) S/82(b)(i)
							Fee for license haat or market	I	I	II'	S/55(1)(b)(iii)

		Tolls (Ferry)	I,D	-	-	S/55(1)(a), S/82(1)(a)	Water rate	V,I,D	V,I,D	GF, II, DF	S/27(2) (c) S/55(1) (a)(iv) S/82(1) (b)(v)
							Lightning Fee	V,I,D	-	GF, II, DF	S/27(2) (d) S/55(1) (a)(v) S/82(1) (b)(iv)
							Fee for license of fair or mela	D	D	DF	S/82(1) (b)(iii)
							Conservanc y rate	V	V	GF	S/27(2) (e)
5.	Chhattisgarh (Gram Panchayat- V, Janpad Panchayat-I, Zilla Panchayat- D) • Chattisgrah Panchayat Raj Adhiniyam	Taxes	Levi ed Coll ecte d	Appro priate d	Deposi ted	Provisi ons	Non- Taxes	Levi ed Coll ected	Approp riated	Deposite d	Provisi ons
		Duty on transfer of property	I	I,D	SI(total Procee ds),DI:(extra stampd uty)II: grant-in aid)	S/75, S/76A	Fee for registration of cattle	V		GF	S/77(1) Schedul e-I
		Development Tax	I	V,I	II',DI'	S/77(3) ,S/76,S /76A	Fees for the use of sarais, dharamshal as, rest houses, slaughter houses and	I	I	II'	S/77(1) Schedul e-I
		Tax on persons carrying on the profession of	V,I	V	GF	S/77(2) Schedul e II					S/77(2) Schedul

		Tax on animals used for riding, driving, drought or burden or on dogs or pigs	I	I	IF	S/77(2) Schedule II(2)	Note: Schedule I- Obligatory Tax to be imposed by G.P				
		Tax on the bullock-carts, bicycles, rickshaws used for hire	I	I	IF	S/77(2) Schedule II (3)	Schedule II- Optional tax after the permission of Zilla Panchayat, Janpad Panchayat and with previous approval of Janpad, Gram Panchayat. (as per section 77(1) and (2))				
		Tax for the construction or maintenance of public latrines (Scavenging Tax)	V,J	V	GF	S/77(2) Schedule II(10)					
		Entertainment Tax	I	I	IF	S/77(1) Schedule I B					
		Tax on trades, calling, profession	V	V	GF	S/77(1) Schedule I (4)					
6.	Goa (Gram Panchayat-V, Taluka Panchayat- 1, Zilla Parishad-	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
		Tax on land and building	V	-	GF	S/153(1)	Water rate	V	-	GF	S/153(2)

D) Goa Panchayat Rajact, 1994 S/153- Taxes imposed by G.P S/161- Panchayat Fund	Tax on entertainment (other than cinematograph shows)	V	-	GF	S/153(3) (a)	Fees on grazing cattle	V	-	GF	S/153(3) (h)
	Garbage disposal tax	V	-	GF	S/153(3) (m)	Pilgrim fee ¹⁵⁴	V	-	GF	S/153(3)(d)
	Lighting tax	V	-	GF	S/153(3) (i)	Fee on the registration of cattle	V	-	GF	S/153(3)(f)
	Drainage tax	V	-	GF	S/153(3) (j) S/161					
	Tax on profession, trades, calling and employment	V	-	GF	S/153(3) (k)	Fees for sale of goods in melas, fairs and festivals	V	-	GF	S/153(3)(l)
	Tax on vehicles, other than motor vehicles	V	-	GF	S/153(3) (b)	Market fee	V	-	GF	S/153(3)(e)
Gujarat (Gram Panchayat-V, Nagar Panchayat-N, Taluka Panchayat- I, District	Taxes	Levi ed Coll ecte d	Appro pria ed	Deposi ted	Provisi ons	Non-Taxes	Levie d Coll ected	Appr opria ted	Depo sited	Provisions
	Tax on building and lands	V,N	V,N	GF	S/1780	Fee levied for institution of Suits and cases	V	V	GF	S/244- Fee levied S/99-Gram Fund

¹⁵⁴ on persons attending the jattas, festivals, etc., where necessary arrangement for water supply, health and sanitation are made by the Panchayat;

7.	Panchayat-D)										
	Gujarat Panchayat Act, 1961.	Net proceed of cess	S	V,N	GF	S/181	Sums to be paid as compensation	-	V	GF	S/234& S/235
	[S/178- taxation by GP & NP;	Net proceed of stamp duty	I	I	IF	S/184	Ferry rate	D	D	DF	Bombay Ferries and Inland Vessels Act, 1868
	S/99-Gram Fund S/120(h)- Taluka fund	Conversion Tax	S	V,N	ST	S/65 Land Revenue code, 1879	Rent/Penalty (criminal case)	V	-	GF	S/120(h)- Taluka fund
		Tax on motor vehicles (other than tolls on trailers)	V,N	-	ST	S/20 Bombay motor vehicles tax act, 1958	Water rate	S	I	I	Bombay irrigation Act, 1879
		Pilgrim Tax	V,N	-	GF	S/178 (iii)	Tolls on roads and bridges	S	V,N,I	GF	Tolls on roads and bridges act 1875
		Tax on fairs, festivals and other entertainments	V,N, D	-	GF	S/178 (iv)	Fee on markets and weekly bazaars	V,ND	-	GF	S/178(x)
		Tax on bicycles and on vehicles drawn by animals	VN D	VND	GF, DF	S/178(v)	Fee on cart stands and tonga stands	VND	VND	GF, DF	S/178(xi)

		Tax on trade, professions, callings	VND	VND	GF,DF	S/178	District Development Fund (10% of income)	VND	VN	DF	S/103-DDF Inter-Governmental aid(V+N→DF)
							Sanitary Cess	VND	VN	GF	S/178(xv)
		Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
8.	Haryana (Gram Panchayat-V; Panchayat Samiti-I; Zilla Parishad-D)	House Tax	V	V	GF	S/41(1) (a)	Income derived from common land	V	V	GF	S/40(h)
	Haryana Panchayat Raj Act, 1994.	Duty on Transfer of Property	V	V	GF	S/41(1) (b)	Income derived from fisheries	V	V	GF	S/40(g)
	S/40- Gram Fund						Fees at fairs, agricultural shows and industrial exhibitions	I	I	IF	S/91(2)
	S/41-Special tax	Tech-bazari ¹⁵⁵	V	V	GF	S/41(2) (i)	Service Fee (Cleaning Streets, lightning streets, Sanitation)	V	V	GF	S/41(2)(ii)
	S/91- Levy of fees(Panchayat Samiti)						Water Rates	V	V	GF	S/41(2)(iv)

¹⁵⁵ Fee collected from the shopkeepers in fairs other than cattle fairs

							Preservation Fee ¹⁵⁶	ID	ID	IF,DF	S/91(1)(c)
							Fee on Public places(markets, sarais, schools)	ID	ID	IF,DF	S/91(1)(a)
							Fees for registration of animals sold in the Sabha area	V	V	GF	S/41(2)(iii)
9.	Jharkhand (Gram Panchayat-V; Panchayat Samiti-I; Zilla Parishad-D) Jharkhand Panchayat Raj Act, 2001. S/84-G.P Fund(GF)	Taxes	Levied / Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied/ Collected	Appropriated	Deposited	Provisions
		Tax on occupant of a holding	V	V	GF	S/93(1)(i)(a)	Fees on registration of vehicles	V,I	V,I	GF,IF	S/93(1)(ii)(a)
		Tax on professions, trades, callings and employments	V	V	GF	S/93(1)(i)(a)	Sanitary Fee	V,I,D	V,ID	GF,IF,DF	S/93(1),(2),(3)
							Lighting fee	V,I,D	V,ID	GF,IF,DF	S/93(1),(2),(3)
							Water Rate	V,I,D	V,I,D	GF,IF,DF	S/93(1),(2),(3)
							Ferry rate	I,D	I,D	IF,DF	S/93(2),S/93(3)

¹⁵⁶ preservation and reclamation of soil and drainage and reclamation of swamps.

	S/85- Panchayat Samiti Fund						Conservancy tax	V	V	GF	S/93(1)(ii)(e)
	S/86- Zilla Parishad fund						Fees for license of hats and Bazars	I,D	I,D	IF,DF	S/93(2),(3)
	S/93- Taxation by G.P,B.P,D.P						Boat or conveyance registration	D	D	DF	S/93(2), (3)
10	Jammu & Kashmir	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Halqa Panchayat-V; Block Development council-I; District Planning and development Board-D, Panchayat adalats)	Tax on trade, calling or profession	V	V	GF	S/15(i)	Market Fee ¹⁵⁷	V	V	GF	S/15(vii)
		Tax on vehicles, animals	V	V	GF	S/15(ii)	Fee for the use of slaughter houses and encamping grounds	V	V	GF	S/15(viii)
	Jammu & Kashmir Panchayat Raj	Pilgrim Tax	V	V	GF	S/15(iv)	Temporary occupation fee	V	V	GF	S/15(ix)

¹⁵⁷ Fee on persons exposing goods and animals for sale in market and fairs

	Act, 1989	Tax on gharats, rice husking mills, brick kilns or oil mills	V	V	GF	S/15(v)	Fee on application for creation or recreation of buildings	V	V	GF	S/15(x)
							Grazing fee	V	V	GF	S/15(xii)
		Tax on hawker and pheriwalas	V	V	GF	S/15(vi)	Adda Fee	V	V	GF	S/15(xi)
							Fee on Tongas	V	V	GF	S/15(xiv)
		Tax on boats	V	V	GF	S/15(t)	Fee on cattle pounds	V	V	GF	S/15(xiii)
					(iii)						
11	Himachal Pradesh	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchayat-V;	House Tax	V	V	GF	S/100(1)(a)	Teh Bazari	V	V	GF	S/100(2)(i)
	Panchayat Samiti-I;	Tax on profession, trade, callings	V	V	GF	S/100(1)(b)	Service fee ¹⁵⁸	V	V	GF	S/100(2)(ii)
	Zilla Parishad-D)										
	Himachal Pradesh Panchayat Raj act, 1994	Duty on transfer of property	V	V, J	ST	S/100(1)(c), S/109	Fees for registration of animals sold in the Sabha area	V	V	GF	S/100(2)(iii)
		Special tax for community service	V	V	GF	S/101	Water Rate	V	V	GF	S/100(2)(iv)
12	Karnataka	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchayats-V;										

¹⁵⁸ Cleaning streets, lightning of streets and sanitation.

13	Taluka Panchayat-I; Zilla Karnataka Panchayat Raj Act, 1994 S/199- Levy of taxes, rates, etc., by Grama Panchayats. S/204- Levy of local cess S/212- Grama Panchayat Fund. S/218-Taluk Panchayat Fund.	Tax on lands and buildings	V	V	GF	S/199(1)	Pilgrim fee	V	V	GF	S/199(3)(d)
		Tax on entertainment other than cinematograph shows	V	V	GF	S/199(3)(a)	Water rate	V	V	GF	S/199(2)
							Market Fee	V	V	GF	S/199(3)(e)
		Tax on vehicles, other than motor vehicles	V	V	GF	S/199(3)(b)	Fee on the registration of cattle brought for sale in any market place	V	V	GF	S/199(3)(f)
		Local cess	S	V	GF	S/204 (Karnataka Land Revenue act, 1964)	Fee on buses and taxis and auto-stands	V	V	GF	S/199(3)(g)
		Duty on transfer of property	S	D	DF	S/205 (Karnataka Stamp Act, 1957)	Fee on grazing cattle in the grazing lands	V	V	GF	S/199(3)(h)
	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions	
		Collected					Collected				
	Entertainment tax/Show	V	V	GF	S/200	Service fee	V,I,D	V,I,D	GF,II'	S/198	

I; District Panchayat-D) Kerala Panchayat Raj Act,1994 S/200- Taxes levied by G.P S/212- Panchayat Funds	tax ¹⁵⁹										
	Profession Tax	V	(collected by employers S/205)	GF	S/204	Income from fishing lands	-	V	GF	S/212	
	Property Tax/Building tax	V	-	GF	S/203	Income from Porampokes	-	V	GF	S/212	
	Property tax(unlawful construction)	D	-	DF	S/235A A	Receipts from properties and enterprises	V	V	GF	S/212	
	Duty on transfer of property	S	V	ST	S/206	Fees for licences	V	V	GF	S/212	
	Surcharge on tax on direction of govt.	V	V, D	GF, I, DF	S/199	Income from endowments and trusts	-	V	GF	S/212	
	Land conversion cess	V	V	GF	S/200 (u. Kerala Land Utilisation order, 1967)	Fees (market fee- right to expose goods) ¹⁶⁰	V	V	GF	S/221(public market), S/223(Private market)	
						Fees (market fee-use of infrastructure) ¹⁶¹	V	V	GF	S/221(public market), S/223(Private market)	
						fees on animals brought for sale in	V	V	GF	S/221(public market), S/223(Private market)	

¹⁵⁹ Term 'show' includes any entertainment, exhibition performance, amusement, game, sport or race to which persons are admitted on payment of money

¹⁶⁰ Fees for the use of or for the right to expose, goods for sale in such market

¹⁶¹ Fees for the use of shops, stalls, pens or stands in such markets

							market				market)
							licence fees (market) ¹⁶²	V	-	GF	S/221 (public market), S/223 (Private market)
							Market fee (Vehicles)	V	V	GF	S/221 (public market), S/223 (Private market)
14	Madhya Pradesh	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchayat-V;	Cess on land	V	I	GF	S/74	Market fees	V	-	GF	Schedule-I[S/77(f)]
	Janpad Panchayat-I; Zilla Panchayat-D)	Duty on transfer of Property	S(Indian Stamp act	V,I	ST	S/75	Fees on the registration of cattle sold	V	-	GF	Schedule-I[S/77(f)]
	Madhya Pradesh Panchayat Raj Adhiniyam, 1993	Development tax on agriculture	I	V,I	GF, GF	M.P. Janpad Panchayat (Imposition of Development Tax on Agriculture Land) Rules, 1999	Light tax	V(Gram Sabha)	-	GF	Schedule I-A[S/77A] (3)
	S/7]- Gram Kosh	Development Tax	D	V,I	GF, DF	S/74(3) S/77(3) District Panchayat fund	Water rate	V		GF	Schedule II[S/77(2)]
	• Anna Kosh • Shram Kosh • Vastu Kosh • Nagad Kosh						Fees payable by the owners of the vehicles other than motor-vehicle	V	-	GF	Schedule II[S/77(2)]

¹⁶² Licence fees on brokers, commission agents, weighmen and measurer practising their calling in such market.

S/					rules,1998						
Schedule I- (S/77(f))- Obligatory Taxes to be imposed by G.P)	Theatre Tax	I	V,1	II, GF	Schedule- I(B)	Drainage fee	V	-	GF	Schedule II[S/77(2)]	
B.Tax imposed by B.P	Tax on private latrines	V(Gra m Sab ha)	-	GF	Schedule I- A(2)	License fee (Lands under Janpad)	I	-	IF	Schedule II[S/77(2)]B	
Schedule I-A (S/77A) Obligatory taxes to be imposed by Gram Sabha)	Tax on Profession, trades and callings)	V(Gra m Sab ha)	-	GF	Schedule I- A[S/77A] (4)	Fees for the use of sarais, dharamshalas , rest houses, slaughter houses and encamping ground	V(Gra m Sabha)	-	GF	Schedule II- A [S/77(A)]	
Schedule II[S/77(2)] Optional taxes imposed by G.P	Tax on the bullock-carts, bicycles, rickshaws used for hire	V	-	GF	Schedule II[S/77(2)]	Fee for bullock-cart stand or tonga stand	V	-	GF	Schedule III(S/80)	
B. Optional taxes by B.P	Tax on animals used for riding, driving, drought or burden or on dogs or pigs	V(Gra m Sab ha)	-	GF	Schedule II- A [S/77(A)]	fee for grazing cattle	V	-	GF	Schedule III(S/80)	
Schedule IIA[S/77A] Optional taxes by Gram Sabha						Fees for temporary structure or any projection over any public place	V	-	GF	Schedule II- A [S/77(A)]	
Schedule III- Lease of collection of	Temporary tax ¹⁶³ .	V(Gra m Sab ha)	-	GF	Schedule II- A [S/77(A)]						

¹⁶³ for special works of public utility

	cess by G.P	Property tax	V(Gram Sabha)	-	GF	Schedule I-A (1)					
15		Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	Maharashtra	Cess on land	V	-	GF	S/127	fee on markets and weekly bazars	V	-	GF	S/124(1)(x)
	(Village Panchayat- V; Panchayat Samiti/Taluka Panchayat-I; Zilla Parishad-D) Bombay Village Panchayat Act, 1968	Tax on land and buildings	V	-	GF	S/124(1)(i)	fee on cart-stand and tonga-stands	V	-	GF	S/124(1)(x)
	Maharashtra Zilla Parishad and Panchayat Samiti Act, 1961	Betterment tax ¹⁶⁴	V	-	GF	S/124(1)(i-a)	fee for the supply of water from wells and tanks				S/124(1)(xii)
		Local Panchayat tax	V	-	GF	S/124(1)(i-b)	Equalization Grant	-	-	GF	S/132A
		Pilgrim tax	V	-	GF	S/124(1)(iii)	Village water supply fund	-	-	GF	S/132B
		Tax on fairs, festivals and other entertainments	V	-	GF	S/124(1)(iv)	District Development Fund	-	-	GF	S/133

¹⁶⁴lands benefitted from schemes or projects undertaken by a Panchayat from the village fund

		Tax on bicycles and on vehicles drawn by animals	V		GF	S/124(1)(v)	fee for temporary erection on, or putting up projections over, or temporary occupation of, any public street or place	V		GF	S/124(1)(xiv)
		Lightning Tax	V		GF	S/124(1)(vii-a)	fee for cleaning a cess pool constructed on land	V		GF	S/124(1)(vi)
		Sanitary Cess	V		GF	S/124(1)(vii)	Loans from zilla Parishad			GF	S/132
		Water rate	V		GF	S/124(1)(viii)	fee for grazing cattle or grazing lands	V		GF	S/124(1)(xvii)
		Tax under S/2 of Bombay Motor Vehicles Tax Act, 1958	V		GF	S/124(1)(ix)	fee on the registration of animals sold	V		GF	S/124(1)(xviii)
		Tax on trade, calling or employment	V		GF	S/124(1)(vi)					
16	Manipur (Gram	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions

	Panchayat-V; Zilla Parishad-D)	Tax on lands and buildings	V	-	GF	S/40(1)	Sanitary Fee	V	-	GF,DF	S/40(2)(a) S/70(1)(d) (ii)	
		Tolls on persons, vehicles or animal	D	-	DF	S/70(1)(a)	Lightning Rate	V,D	-	GF,DF	S/40(2)(b) S/70(1)(d) (iv)	
							Water rate	D	-	DF	S/70(1)(d) (v)	
	S/40-Taxation by G.P S/70-Taxation by Zilla Panchayat							Conservancy rate	V	-	GF	S/40(2)(b)
								Ferry toll	D	-	DF	S/70(1)(b)
								Road Cess/Public work cess	D	-	DF	S/70(1)(c)
								Fees for registration of boats or vehicles	D	-	DF	S/70(1)(d) (i)
								Fee for license fair or mela	D	-	DF	S/70(1)(d) (iii)
	17.	Odisha (Gram Panchayat-V; Panchayat samiti-I; Zilla Parishad-D)	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
			Vehicle tax	V	V	GF	S/83, S/86	Income from endowments, trusts	I,D	-	IF,DF	S/29(iii) Orissa Panchayat Samiti Act, 1999
							Power to levy fees	V	-		S/57	

<ul style="list-style-type: none"> • Orissa Gram Panchayat Act, 1964 S/83- Taxation by G.P S/93- Gram Fund • Orissa Panchayat Samiti Act, 1999 S/29- Sources of income for panchayat samiti • Orissa Zilla Parishad Act, 1994 S/15-Sources of income for zilla parishad. 	Conservancy tax	V	V	GF	S/83	under S/55 ¹⁶⁵ & S/56 ¹⁶⁶				
	Drainage tax	V	V	GF	S/83	Ferry rate	V	V	GF	S/72- Appropriation of income of ferries
	Land cess	V	V,D	GF, DF	S/93(V) S/15(D)	Water rate	V		GF	S/83(d)
							V		GF	S/83(e)
						Lightning rate				
						Fee on private markets, cart-stands and slaughter houses within gram	V		GF	S/83(g)
						Fee on animals brought for sale into or sold in a public market(Gram)	V		GF	S/83(h)
						Rent from dealers ¹⁶⁷	V	V	GF	S/83(l)
						License fees for brokers, commission agents, weigh men and	V	V	GF	S/83(m)

¹⁶⁵ S/56, Orissa Gram Panchayat act, 1964 Industries and factories including dangerous and offensive trades

¹⁶⁶ S/57, Orissa Gram Panchayat act, 1964 Control over

¹⁶⁷ "Dealers", who are temporarily occupying open grounds or any structure belonging to G.P.

							measures				
							Fee for use of any infrastructure in market.	V	VI	GF	S/83(j) S/58(2)(b) ¹⁶⁸
							Income from property, Institution, undertakings	-	-	GF	S/93(e)
							Fee for regulating the movement of cattle (protection of crops)	V	-	GF	S/83(i)
18.	Punjab	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchayat-V; Panchayat samiti-I; Zilla Parishad-D)	Tax on land and buildings	V	V	GF	S/88(a)	Local Rate	I	I,D	II, DI'	S/146(Def) S/148-Appropriation
		Tax on professions, trades, callings	V	V	GF	S/88(b)	Income derived from fisheries	V	-		S/86(g)
	Punjab	Duty on entertainment	V		GF	S/88(2)	Income derived	V			S/86(h)

¹⁶⁸ S/58(2)(b) Markets

19.	Panchayat Raj Act, 1994						from common lands					
	S/86-Gram fund.	Duty/Surcharge on transfers of property	V			GF	S/88(3)	Fees on registration of vehicles	V		GF	S/88
	S/138-Panchayat Samiti fund							Fees for providing sanitation arrangements at places of worship/pilgrimage, fairs & meals.	V, J		GF, I, F	S/88(4)(b) S/149(c)(ii)
	S/149-Fixation measures by Panchayat Samiti							Fees on registration of vehicles other than those registered under the Motor Vehicle Act, 1988	I		IF	S/149(c)(i)
	S/150-Procedure for imposing taxes under S/149.							Water rate	V, J		GF, I, F	S/88(4)(c); S/149(v)
	S/188-Zilla Parishad Fund							Lightning rate	V, J		GF, I, F	S/88(4)(d); S/149(vi)
	S/189-Taxation							Conservancy rate	V		GF	S/88(4)(c)
								Ferry toll	I		IF	S/149(b)
								Fee for license for market.	I		IF	S/149(iii)
		Rajasthan (Gram	Taxes	Levied Collect	Appropriated	Deposited	Provisions	Non-Taxes	Levied Coll	Appropriated	Deposited	Provisions

Panchayat-V;		ed				ected				
Panchayat samiti-I;	Taxes on buildings(owned by persons)	V	-	GF	S/65(a)	Fee for temporary projection on public land	V,I,D	V,I,D	GF,I F,DF	S/67
Zilla Parishad-D)	Pilgrim tax	V	-	GF	S/65(d)	Fee for fair or meal	D	D	DF	S/69(a)
Rajasthan Panchayat Act, 1994	Vehicle tax	V	-	GF	S/65(c)	Water rate ¹⁶⁹	D	D	DF	S/69(b)
S/64- Gram Fund	Tax for arranging supply of water	V	-	GF	S/65(c)					
S/65- 'Taxation	Tax on commercial crops	V	-	GF	S/65(f)					
S/68- Power of Panchayat Samiti to impose tax	Special tax for community service	V,I, D	V,I,D	GF, IF, DF	S/66					
	Tax in respect of panchayat samiti fair	I	I	IF	S/68(2)(c)					
	Primary education cess	I	I	IF	S/68(2) (b)					
	Tax on trades calling, porofession	I	I	IF	S/68(a)					
	Surcharge (upto 5% on stamp duty sale of property)	D	D	DF	S/69(c)(i)					
	Surcharge on market fees	D	D	DF	S/69(c)(i)					

¹⁶⁹ where management for the supply of water for drinking, irrigation or any purpose is made by the Zila Parishad within its jurisdiction

		Tax on rent payable for the use or occupation of agriculture land	I	I	IF	S/68(1)					
20.	Sikkim	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchayat-V, Nagar Panchayat-N, Zilla Panchayat-D)	Tax on fairs, mela, hats and other entertainment	V,D	-	GF, DF	S/40(1)(a) S/77(1)(a)	Water rate	V,D	-	GF,D F	S/40(1) (c) S/77(1) (c)
	Sikkim Panchayat Act, 1993	Sanitation tax	V,D	-	GF, DF	S/40(1)(b) S/77(1)(b)	Fee for temporary erection	V,D	-	GF,D F	S/40(1) (d), S/77(1) (d)
	S/40- Levy of taxes, rates and fees.(G.P)	Temporary tax for special work of public utility	V	-	GF	S/40(1)(k)	Fee on private latrines	V,D	-	GF,D F	S/40(1) (e) S/77(1) (e)
	S/77- Imposition of taxes, rates, fees(Zilla Panchayat)						Fee for use of Dharamshala and camping grounds	V,D	-	GF,D F	S/40(1) (i) S/77(1) (h)
		Tax on houses	V	-	GF	S/40(1)(l)	Fee for grazing cattle	V	-	GF	S/40(1) (f)
							Fee for registration of animals	V,D	-	GF,D F	S/40(1) (g)

							sofd				S/77(1) (f)
							Drainage Fee	V,D	-	GF,D F	S/40(1) (h) S/77(1) (i)
							Market fee	V,D	-	GF,D F	S/40(1) (h) S/77(1) (g)
21.	Tamil Nadu	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Village Panchayat-V; Panchayat Union Councils-I; District Panchayats-D)	Local cess ¹⁷⁰	V, I, D	I(10% proceeds) ¹⁷¹ , D	GF, II, DF	S/167 (Tamil Nadu Revenue Recovery Act, 1864)	Local education grant	-	-	IF	S/179
		Duty on transfer of property	V	-	GF	S/171 S/175	Local Roads grant	-	-	IF	S/182
	Tamil Nadu Panchayats Act, 1994	House tax	V	-	GF	S/171 S/172	Local Cess Surcharge Matching Grant	-	-	IF	S/180

¹⁷⁰ S/167, Tamil Nadu Panchayats Act (I) There shall be levied in every panchayat development block, a local cess at the rate of one rupee on every rupee of land revenue payable to the Government in respect of any land for every fashi.

Explanation.- In this section and in section 168, 'land revenue' means public revenue due on land and includes water cess payable to the Government for water supplied or used for the irrigation of land, royalty, lease amount or other sum payable to the Government in respect of land held direct from the Government on lease or license, but does not include any other cess or the surcharge payable under section 168, provided that land revenue remitted shall not be deemed to be land revenue payable for the purpose of this section.

¹⁷¹ shall be credited to the Panchayat Union (Education) Fund(S/167(4))

-S/171- Taxes leviable by village Panchayats	Vehicle tax ¹⁷²	V	-	GF	S/171 S/173	Fees on licences and permissions by Panchayat union	I	-	IF	S/186(e)	
	-S/186- Panchayat Union (General) Fund	Entertainment tax	I	-	IF	S/13, Tamil Nadu Entertainment tax act, 1939	Fee levied in public markets	I	I,V	IF,G F	S/186(f)
	-S/188-Village Panchayat Fund	Professional tax	V	V	GF	S/188; [Tamil Nadu Tax on Professions, Trades, Callings and Employments Act, 1992]	Fee for use of choultries	I	-	IF	S/186(i)
							Income from ferries and fisheries	-	-	IF,G F	S/186(o) S/188(n) S/188(o)
		Taxes and tolls levied in the village	V	V	GF	S/188; S/ 117 and 118, Tamil Nadu Public Health Act, 1939	Income from endowments and trusts	I	-	IF,G F	S/186(k) S/188(k)
						Sale proceeds of tools, plants, stores, avenue produce	-	-	IF	S/186(n)	

¹⁷² *Explanation.*- In this section, "vehicle" means a conveyance suitable for use on roads and includes any kind of tram-car, carriage, cart, wagon, bicycle, tricycle and rickshaw, but does not include a motor vehicle as defined in the Motor Vehicles Act, 1988

							Income derived from poramboke s	-	-	GF	S/188(r)
							Income from leases of Government property	-	-	GF	S/188(t)
							Fee for temporary occupation of roads	I	-	II,GF	S/186(h) S/188(i)
22.	Telangana	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected	Appropriated	Deposited	Provisions
	(Gram Panchyats- V, Mandal Praja Parishad-I; Zilla Praja Parishad-D)	House Tax	V	-	GF	S/64(1)(a) S/65	fees for use of poramboke s or communal land	V	-	GF	S/64(2)(ii)
	Telengana Panchayat Raj Act, 2018	Kolagaram or Katarusum ¹⁷³	V	-	GF	S/64(1)(b)	fees for the occupation of building including chavadies and sarais	V	-	GF	S/64(2)(iii)
	S/64-Taxes leviable by Gram Panchyat	Tax on agricultural land	V	-	GF	S/64(2)(i)	User charges	V	-	GF	S/64(2)(v)
	S/70- Gram Panchayat Fund	Local cess	V	-	GF	S/135, Telangana District Boards Act, 1955	Encroachment fee	V	-	GF	S/64(2)(vi)

¹⁷³ Ibid I

		Education tax	V	-	GF	S/37 of the Telangana Education Act, 1982.	Payment made to the G.P by the Governme nt under the provisions of the Telangana Goods and Services Tax Act, 2017;	V	-	GF	S/70; Telangana Goods and Services Tax Act, 2017;
		Special taxes	V	-	GF	S/64(2)(iv) S/67					
							fees for the temporary occupation of village sites, roads and other similar public places or parts	V		GF	S/70
							Income from ferries	V,I,D	V,I,D	V,I,D	S/61 Telangana Ferries Act
							Payments under the Telangana (Agricultur al Produce and Livestock) Markets Act, 1966	V		GF	S/70; Telangana (Agricultural Produce and Livestock) Markets Act, 1966
23.	Tripura (Gram Panchayat-V,	Taxes	Lev ied Col lect ed	Appr opria ted	Dep osit ed	Provisions	Non- Taxes	Levic d Coll ected	Appr opria ted	Depo sited	Provisions

Panchayat Samiti-I, Zilla Parishad-D)	Tax on land and building	V		GF	S/59(2)	Fees on the registration of vehicle	V,I,D		GF	S/60(1)(i) S/114(1)(c)(i) S/168(1)(c)(i)
	Duty on transfer of property	V		GF	S/59(4)(a)	Sanitary fee	V,I,D		GF,I F,DF	S/60(1)(ii) S/114(1)(c)(ii) S/168(1)(c)(ii)
S/53-Property and fund of Gram Panchayat	Entertainment duty	V		GF	S/59(5)	Water rate	V,I,D		GF,I F,DF	S/60(1)(iii) S/114(1)(c)(iv) S/168(1)(c)(v)
S/58-Gram Panchayat Fund	Road Cess	D		DF	S/167(d)	Lightning rate	V,I,D		GF,I F,DF	S/60(1)(iv) S/114(1) (c)(v) S/168(1) (c)(iv)
S/59-Imposition of taxes by G.P										
S/114-Panchayat Samiti Fund	Public work cess	D		DF	S/167(d)	Conservancy rate	V		GF	S/60(1) (v)
S/167- Zilla Parishad fund						Tolls on persons, vehicles or animals(Roads & Bridges)	V,I, D		GF,I F,D	S/60(1) (v)(ii) S/114(1) (a) S/168(1) (a)
						fees on licence for running trade, wholesale or retail	V			S/60(1) (v)(i)

							Ferry toll	V,I,D	V,I,D	GF,I F,DF	S/60(1) (viii) S/114(1) (b) S/168(1) (a)
							Fee for licence for a hat or market	I,D		IF,D F	S/114(1) (c)(iii) S/168(1) (c)(iii)
24.	Uttar Pradesh	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied Collected		Deposited	Provisions
	(Gram Panchayat-V; Kshetra Panchayats-I; Zilla Panchayats-D)	Land Tax ¹⁷⁴	V,D	-	GF, DF	S/37(a) U.P. Zila Panchayats (Recovery of Arrears of Tax and Rent on Land) Rules, 1975	Fees on the registration of animals sold in any market	V	-	GF	S/37(f)
	*Uttar Pradesh Panchayat Act, 1947	Tax on land revenue	V	-	GF	S/37(b)	Fees for the use of slaughter-houses and encamping ground .	V	-	GF	S/37(g)
	S/32-Fund Gaon	tax on theater, cinema or similar	V	-	GF	S/37(c)	Water rate	V,I	-	GF,I F	S/37(h) S/131A

¹⁷⁴ In areas where the right, title and interest of intermediaries have been acquired under the Zamindari Abolition and Land Reforms Act, 1950 (U.P. Act No. 1 of 1952), the Jaunsar Bawar Zamindari Abolition and Land Reforms Act, 1956 (U.P. Act XI of 1956) or the Kumaun and Uttarakhand Zamindari Abolition and Land Reforms Act, 1960 (U.P. Act XVII of 1960) a tax on land [not less than twenty-five paise by not exceeding fifty paise] in a rupee on the amount of land revenue payable or deemed to be payable therefor;

S/37- Imposition of taxes and fees	entertainment								(a)	
						Irrigation rate	V	-	GF	S/37(k)
S/39- Expenses of nayaya Panchayat to be charge on Goan fund	Tax on animals and vehicles	V	-	GF	S/37(d)	Electricity tax	I	-	IF	S/131A(b)
	Tax on person exposing goods for sale in markets, hats, or melas	V	-	GF	S/37(e)					
	Tax for cleaning and lighting of streets and sanitation;	V	-	GF	S/37(j)					
*Uttar Pradesh Kshetra Panchayats and zilla Panchayats Adhinyam, 1961	Tax for cleaning private latrines and drains	V	-	GF	S/37(i)					
S/99-Zila Nidhi and Kshetra nidhi(Fund)	Tax on circumstance s and property	D	-	DF	S/119, U.P Kshetra and zilla Panchayat Adhinyam, 1961					
S/119-Taxes imposed by Zila Panchyat		V(S /12 2- Coll ecti on of tax)			United Provinces District Boards Act, 1922					

25.	Uttarakhand	Taxes	Levied Collected	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
	(Gram Panchayat-V; Kshetra Panchayat-I; District Panchayat-D)	Commercial tax other than agricultural activity				S/46	Fee for license and issue of NOC for opening slaughter houses				
		Duty on transfer of property				S/46	Fee on Registration of Vehicles	D		DF	S/123
	S/46-Other sources of tax and revenue of Gram Panchayats,	Tax on sale and purchase of animal									
		Vehicles tax									
	S/84- Imposition of tax by Kshetra Panchayats,	Cleanliness tax									
		Tax on drinking water and irrigation water									
	S/123- Imposition of tax by District Panchayat,	Tax on fairs/market/hats									
		Tax on marriage halls/resorts/mandap & other places of entertainment									
		Tax on sale of liquor									

		Building tax									
		Surcharge on stamp duty									
		Conservancy tax for cleaning private latrines/urinals /drains									
		Tax on circumstances and property									
26.	West Bengal	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
	(Gram Panchayat-V;	Tax on land and building	V	-	GF	S/46(1)	fees on the registration of vehicles	V,I,D	-	GF,I F,DF	S/47(i) S/133(i) S/181(1)(c)(i)
	Panchayat Samiti-I;	Duty on transfer of property	V	-	GF	S/46(4)(a)	fees on plaints and petitions and other processes in suits and cases	V	-	GF	S/47(ii)
	Zilla Parishad-D)										
	West Bengal Panchayat Raj Act, 1973	Duty on entertainment	V	-	GF	S/46(5)	Sanitary Fee	V,I,D	-	GF,I F	S/47(iii) S/133(ii) S/181(1)(c)(ii)
	S/47- Levy of rates and fees(Gram	Road Cess	D	-	DF	S/180 (Cess Act, 1880)	water rate	V,I,D	-	GF,I F	S/47(iv) S/133(v) S/181(1)(c)(iv)
		Public work cess	D	-	DF	S/180	lighting rate	V,D	-	GF	S/47(v) S/181(1)(c)(v)

Panchayat)	S/133- Levy of tolls and fees by Panchayat Samiti	conservancy rate	V		GF	S/47(vi)
		Ferry rate	V,I,D		GF,I F,DF	S/47(ix) S/133(b) S/181(1)(b)
		Drainage rate	V		GF	S/47(xii)
		Fees for use of burning <i>ghat</i>	V		GF	S/47(xiv)
		Fees on license on dogs and birds and other domestic pet animal	V		GF	S/47(x)
		Fees on registration for [shallow or deep tube-wells] fitted with motor-driven pump sets and installed for irrigation for commercial purposes.	V		GF	S/47(xv)
		Tolls on persons, vehicles or animals(Roads and	V,I,D		GF,I F,DF	S/47(viii) S/133(1) (a)

					bridges)					S/181(1) (a)
					Fee on running dangerous trade	I	-	II		S/116 S/133(iii)
					Fee for license for a <i>bat</i> or market	I	-	II		S/117 S/133(iv)
					fees on registration for running trade, wholesale or retail,	V	-	GF		S/47(vii)

-Union Territories-

1.	Andaman & Nicobar	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
	(Gram Panchayat-V; Panchayat Samiti-I; Zilla Parishad-D)	Tax on land, buildings	V, D	-	GF, DF	S/37(a) S/170(1)(a)	Sanitary fee	V	-	GF	S/37(h)
		Tax on professions, trades, calling and employment	V, D	-	GF, DF	S/37(b) S/170(1)(a)	Fee on Grazing cattle	V	-	GF	S/37(j)
	A&N islands (panchayats) regulation, 1994	Tax on vehicles other than motor vehicle	V	-	GF	S/37(c)	Fee for providing watch & ward of crops	V	-	GF	S/37(k)
		Tax on sale of cattle	V	-	GF	S/37(d)	Ferry rate	V	-	GF	S/37(l)
	S/34-Gram Fund S/37-	Theatre or show tax on entertainment	V	-	GF	S/37	Water rate	I	-	II	S/128(f)
							Lightning rate	I	-	II	S/128(g)

	Imposition of taxes by Gram Panchayats,	Duty on transfer of property	D	-	DI'	S/170(2)(a)	Fees on registration of vehicles	D	-	DI'	S/170(3)(a)
	S/170-Taxes imposed by Zilla Parishads,	Additional stamp duty on entertainment	D	-	DI'	S/170(2)(b)	Conservancy rate	D	-	DI'	S/170(3)(f)
		Cess on education	D	-	DF	S/170(3)(f)					
S/173-Lease of markets, S/174-Recovery of taxes & other dues,											
2.	Chandigarh	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
	(Gram Panchayat-V;	Tax on land and buildings	V	V	GF	S/88(a)	Local Rate	I	I,D	IF, DI'	S/146(Def) S/148-Appropriation
	Panchayat Samiti-I;	Tax on professions, trades, callings	V	V	GF	S/88(b)	Income derived from fisheries	V	-	-	S/86(g)
	Zilla Parishad-D)	Duty on entertainment	V	-	GF	S/88(2)	Income derived from common lands	V	-	-	S/86(h)
	Punjab Panchayat Raj Act, 1994										
	S/86-Gram fund.	Duty/Surcharge on transfers of property	V	-	GF	S/88(3)	Fees on registration of vehicles	V	-	GF	S/88
	S/138-Panchayat						Fees for providing sanitation arrangements at places of worship/pilgrimage, fairs	V,I	-	GF,I F	S/88(4)(b) S/149(c) (ii)

regulation, 2012 S/35-Gram Fund S/38-Taxes which may be imposed S/80-District Panchayat Fund S/83- Taxes which may be imposed.						melas, fairs and festivals				
	Tax on vehicles other than motor vehicles	V		GF	S/3(c)	fee for grazing of cattle	V,D		GF,D	S/38(j) S/83, S/82,S/80
	tax on sale of cattle within the limits of the Gram Panchayat	V		GF	S/38(d)	Sale proceeds of all dust, dirt, dung or refuse collected by the functionaries of the Gram Panchayat;	-	-	GF	S/35
	Theatre or show tax on entertainments and amusements	V		GF	S/38(e)					
	lighting tax	V,D		GF	S/38(f) S/83, S/82,S/ 80	Income from or proceeds of any property of the Gram Panchayat	-	-	GF	S/35(h)
	Drainage tax;	V,D		GF	S/38(g) S/83, S/82,S/ 80					
						Income from securities in which the Gram Fund is invested	-	-	GF	S/35(d)
						fee for providing the watch and ward of crops	V	-	GF	S/38(k)
						licence fee for plying of public ferry	V	-	GF	S/38(l)

							Income derived from fisheries and other sectors	-	-	GF	S/35(g)
4.		Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
		Tax on owners or occupiers of buildings	V	-	GF	S/38(a)	Sanitary fee	V	-	GF	S/38(h)
		Tax on trades, callings and employment	V		GF	S/38(b)	fees for sale of goods in markets, melas, fairs and festivals	V	-	GF	S/38(i)
		Tax on vehicles other than motor vehicles	V		GF	S/3(c)	fee for grazing of cattle	V,D	-	GF,D	S/38(j) S/83, S/82,S/80
		tax on sale of cattle within the limits of the Gram Panchayat	V		GF	S/38(d)	Sale proceeds of all dust, dirt, dung or refuse collected by the functionaries of the Gram Panchayat;	-	-	GF	S/35
		Theatre or show tax on entertainments and amusements	V		GF	S/38(c)					
		lighting tax	V,D		GF	S/38(f) S/83, S/82,S/80	Income from or proceeds of any property of the Gram Panchayat	-	-	GF	S/35(h)
		Drainage tax;	V,D		GF	S/38(g) S/83, S/82,S/80	Income from securities in which the Gram fund is invested	-	-	GF	S/35(d)

							fee for providing the watch and ward of crops	V		GF	S/38(k)
							licence fee for plying of public ferry	V		GF	S/38(l)
							Income derived from fisheries and other sectors			GF	S/35(g)
5.	Puducherry	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
	(Village Panchayat-V;	Local cess and surcharge on it.	V	V,D ¹⁷⁵	GF	S/124; S/125	Local roads grant				S/183
	Commune Panchayat-	House Tax	V	V,D	GF	S/127; S/130- S/142	House tax matching grant				S/184
	Pondicherry village and commune Panchayat Act, 1973	Profession Tax	V	V,D	GF	S/143- S/146	fees for the use of, or for the right to expose goods for sale in such market	V		GF	S/109
	S/127-Taxes leviable by village panchayat	Tax on agricultural land	V	V,D	GF	S/127(b)					
	S/128-Taxes leviable by commune panchayat council.	Duty on transfer of property	V	V,D	GF	S/149	fees for the use of shops, stalls, pens or stands	V		GF	S/109
	S/187-Commune panchayat	Duty on toddy trees	V	V,D	GF	S/127(a) S/153	fees on vehicles including motor vehicles as defined in the Motor	V		GF	S/109
		Tax on fairs and festivals	V	V,D	GF	S/127					

¹⁷⁵ S/128(twenty-four per cent of the prescribed maximum rates)

fund	Entertainment Tax	V,D	V,D	GF,DF	(c) S/154-157	Vehicles Act, 1939				
S/188-Village panchayat fund										
S/109-Public markets						licence fees on brokers, commission agents, weighmen and measure	V		GF	S/109
						Water rate	V		GF	S/127
						fee for the use of poramboke or communal lands	V		GF	S/127(c)
						fees for the temporary occupation of sites, roads and other similar public places	V		GF	S/127 S/188
						fees on animals brought for sale into or sold in such market	V		GF	S/109
6.										
	Taxes	Levied	Appropriated	Deposited	Provisions	Non-Taxes	Levied	Appropriated	Deposited	Provisions
Lakshadweep	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-

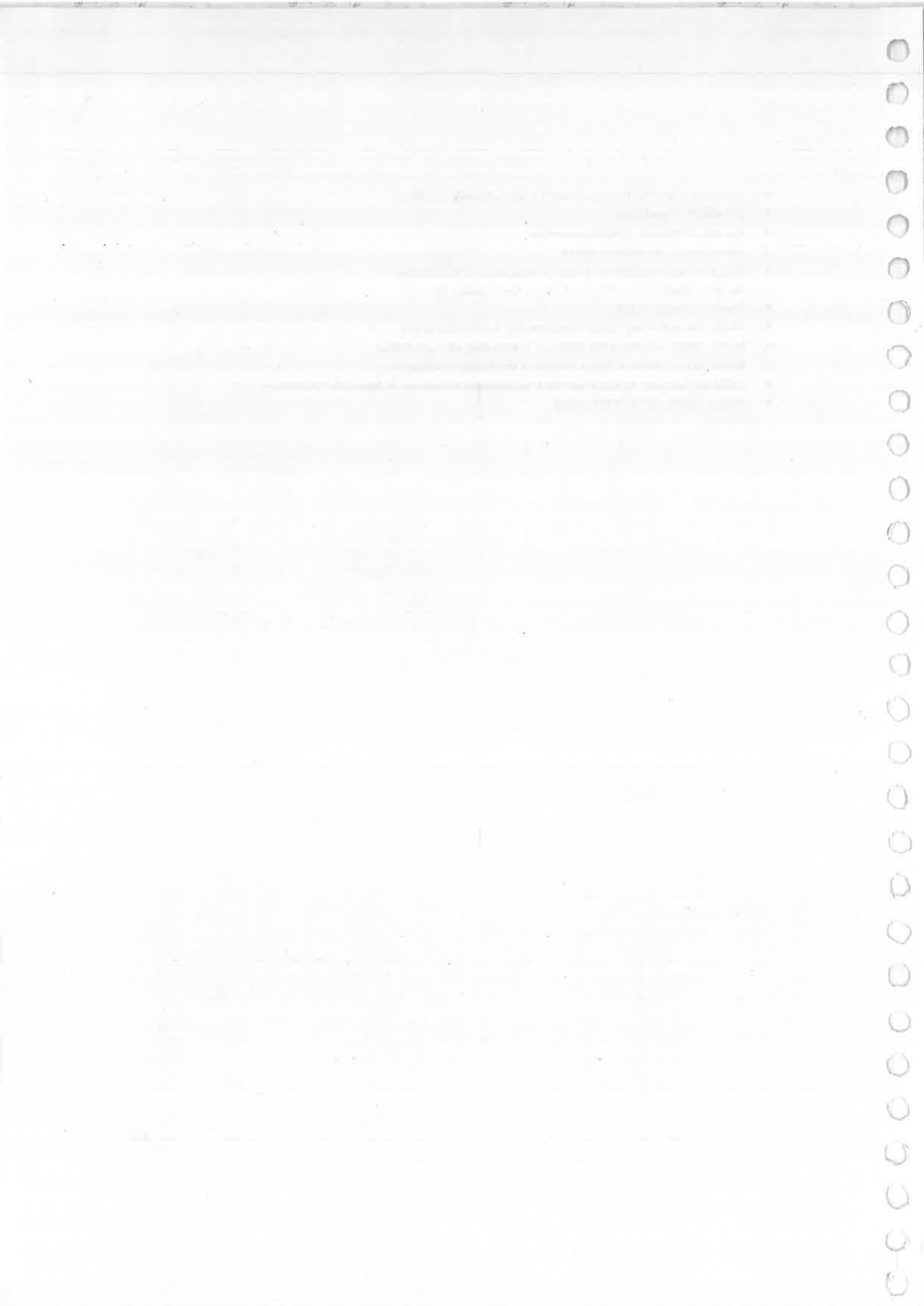
V- Gram Panchayat	S-State(Government)	CPI- Consolidated Fund of India
I – Block Panchayat	GI- Gram Panchayat Fund	DI- District Panchayat Fund
D- District Panchayat	IF- Block Panchayat Fund	ST- State Treasury -na-not available

Primary Source: States Panchayat Acts/Rules and other relevant reports, which are mentioned below

- The Andaman and Nicobar Islands (Panchayat Accounts and Finance) Rules, 1997
- Arunachal Pradesh Panchayati Raj Act 1997
- The Assam Panchayat (Financial Rules, 2002)
- Bihar Panchayat Raj Act 1993
- Bihar Panchayat Samitis and Zila Parishads (Budget and Accounts) Rules 1964
- Chhattisgarh Panchayat Samitis and Zila parishad (general) Financial, budget, Accounts and Audit Rule, 1964.
- The Chhattisgarh Gram Panchayats Rules, 1997
- Dadra and Nagar Haveli Panchayat Regulation, 2012
- General finance rules-2005
- Delegation of financial powers 1978
- CPW manual 2012
- Goa, Daman and Diu Village Panchayat (Accounts and audit and custody of funds) Rule
- Goa Panchayat (Accounts, Audit and Custody of Funds) Rules, 1997
- Gujarat Taluka and District Panchayat Finance Accounts and Budget Rules 2010
- The Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996
- Himachal Pradesh Panchayati Raj (Finance, Budget, Accounts, Audit, Works, Taxation and Allowances) Rules, 2002
- The Kerala Panchayat Raj Act, 1994
- The Kerala Panchayat Raj (Accounts) Rules, 2011
- Kerala Panchayat Raj Accounts Manual
- Kerala Panchayat Raj (Budget) Rules, 2008
- Kerala Local Fund Audit Act, 1994
- Kerala Local Fund Audit Rules, 1996
- Bombay Village Panchayats (Budget and Accounts) Rules, 1959
- The Maharashtra Zila Parishads and Panchayat Samitis Account Code, 1968
- Madhya Pradesh Panchayat Audit Rules, 1997
- Madhya Pradesh Panchayat Audit Rules, 2001
- Madhya Pradesh Panchayati Raj and Gram Swaraj Sansodhan Adhiniyam 2011
- Manipur Panchayati Raj Act, 1994
- Mizoram Local Funds (Accounts and Audit) Act 2006
- The Punjab Panchayat Samitis and Zila Parishad (general) Financial, Budget, Accounts and Audit Rule, 1964
- The Punjab Panchayati Raj Act, 1994
- The Punjab Panchayati Raj Act (Gram Panchayat) Rules, 2012
- Rajasthan Panchayati Raj Rules, 1996
- Sikkim Panchayat raj Act 1993
- Zila Panchayat (Financial) Rules, 2001
- Gram Panchayat (financial) Rules 2004
- Tamil Nadu Panchayats (Issue and Disposals of Audit Reports of Panchayat Union Council and District Panchayat) Rules – 2000
- Tamil Nadu Panchayats (Receipts and Expenditure and Maintenance of the Accounts of Village Panchayats) Rules – 2000
- Tripura Panchayat Raj Act, 1993
- The W.B. Panchayat (Gram Panchayat Accounts Audit and Budget) Rules, 2007
- The W.B. Panchayat (Zila Parishad and Panchayat Samiti) Accounts & Finance Rules, 2003
- Andhra Pradesh Goods and Services Tax Act, 2017
- ASSAM GOODS AND SERVICES TAX ACT, 2017

- Constitutional (One Hundred and First amendment) Act, 2016
- MNNREGA guidelines
- Fourteenth Finance commission report
- State Finance commission report.
- Based on Accountability of Local Governments: CAG Initiative
- Auditing Standards for PRIs and Urban Local Bodies by CAG
- Previous reports of IIPA
- MoPR. Strengthening Social Accountability for Panchayati Raj
- MoPR. 2009. Guidelines for Effective Functioning of Gram Sabhas
- Based on the Citizens Charter Format of the Kerala Government
- e-PRi study report: ISNA report for Panchayati raj Institutions in India, MoPR 2009 etc.
- Action Agenda of the NITI Aayog

RESTRICTED CIRCULATION



Proposed Panchayat Devolution Survey Questionnaire-2018-19: Sample copy

Panchayats Survey for States-2018-19

As on December 31, 2018

(To be answered by the State Government)

Name of the State: _____
 Nodal Officer's Name: _____ Designation: _____
 Nodal Officer's Contact Numbers: Tel: _____ Fax: _____
 Mobile: _____ Email: _____

Instructions:

1. All the sections need to be answered. Please read the following notes as well as note (s) against each question.
2. Please tick (✓) the appropriate box against each question/ information sought, unless mentioned otherwise. Please make multiple selections, if needed. If a box is not ticked or not filled, it will be treated as 'No' filled in that box. Please write -NA- if not applicable.
3. Please add more rows if need arises and give explanatory notes/observations wherever required. Please read the following table for acronyms.
4. The information sought in this exercise is for research purpose only.

Acronyms	Expansions	Acronyms	Expansions
ASHA	Accredited Social Health Activist	NDRGGSP	Nanaji Deshmukh Rashtriya Gaurav Gram Sabha Puraskar
ATR	Action Taken Report	NGO	Non-Governmental Organization
BDO	Block Development Officer	NRDWP	National Rural Drinking Water Program
BP	Block Panchayat	NRHM	National Rural Health Mission
C&AG	Comptroller and Auditor General	NRLM	National Rural Livelihoods Mission
CBO	Community Based Organizations	PMGSY	Pradhan Mantri Gram Sadak Yojana
DPC	District Planning Committee	PHC	Primary Health Centre
DRDA	District Rural Development Agency	PSA	Panchayat Sashaktikaran Abhiyan
DI	Digital India	NRLM	National Rural Livelihoods Mission
DDUPSP	Deen Dayal Upadhyaya Panchayat Shasaktikaran Puraskar	PMGSY	Pradhan Mantri Gram Sadak Yojana
EVM	Electronic Voting Machine	PMAY-G	Pradhan Mantri Awas Yojana-Gramin
GP	Gram Panchayat	RTI	Right to Information Act
GIS	Geographic Information System	RAGAV	Rashtriya Gram Anudaan evam Vikas
GS	Gram Sabha	RGSA	Rashtriya Gram Swaraj Abhiyan
GST	Goods and Services Tax	SFC	State Finance Commission

ICDS	Integrated Child Development Scheme	SAUBHAGYA	Sahaj Biji Har Ghar Yojana
ICT	Information and Communication Technology	Sl. No.	Serial Number
ITDA	Integrated Tribal Development Agency	SSA	Sarva Siksha Abhiyan
ISS	Interest Subvention Scheme	SIRD	State Institute for Rural Development
MDM	Mid-Day Meal Programme	STs	Scheduled Tribes
MINREGA	Mahatma Gandhi National Rural Employment Guarantee Act	WAN	Wide Area Network

Documents Sought: Please send the following reports/ documents/ any other relevant material and questionnaire duly filled in to Prof. V N Alok, Indian Institute of Public Administration, Indraprastha Estate, and Ring Road, New Delhi 110002. Please email soft copies of reports/ documents/ any other relevant material and questionnaire to vnalokindex@gmail.com.

Sl. No.	Documents	Whether such Act/ document made	Year of Publication/ Enactment/ Order	Sending all document(s)	
				Yes	Some
1.	Panchayat Act of State				
2.	Amendment(s) on State Panchayat Act				
3.	Enactment/ notification on SFC				
4.	Amendment on SFC				
5.	Latest Report of SFC				
6.	ATR on report of SFC				
7.	Office Orders on the ATRs				
8.	Act on SEC				
9.	Amendment(s) on SEC				
10.	Circulars on and by SEC				
11.	Election Notification by SEC				
12.	Act on DPC				
13.	Amendment on DPC				
14.	State Guidelines on DPC				
15.	Circulars on DPC				
16.	Annual Report on Panchayats for the year 2017 - 18				
17.	Panchayat Rules				
18.	Recruitment Rules for Panchayat Officials				

19.	Compilation of Acts/Amendments/ Rules				
20.	Service Rules for Panchayat Officials				
21.	Social Audit Orders and Rules				
22.	RTI Provisions				
23.	Gram Panchayat Development Plan (GPD)				
24.	Key Performance Indicators Report				

A. Basic Details of Panchayats

Sl.No.	Constitutional Provisions	Gram Panchayat	Block Panchayat	District Panchayat
1.	Please write here the name of each level of Panchayat as mentioned in State Act.			
2.	Number of Panchayats at each level:			
3.	Number of Elected Representatives for the entire State at each level of Panchayats:			
4.	Number of Women Representatives for the entire State at each level of Panchayats:			
5.	Number of SC Representatives for the entire State at each level of Panchayats:			
6.	Number of ST Representatives for the entire State at each level of Panchayats:			
7.	What is the percentage of reservation for Women?			
8.	What is the percentage of reservation for Scheduled Castes (SCs)?			
9.	What is the percentage of reservation for Scheduled Tribes (STs)?			
10.	Is there any State specific support for SCs/STs? (Yes/No)			
11.	Panchayat elections conducted by SEC (Please mention Month/ Year)			
			1 st Election	
			2 nd Election	
			3 rd Election	
			4 th Election	
			5 th Election	
12.	Date on which previous/last election was due:			

13.	Date on which previous/last election was held:		
14.	Please mention reason(s), if there was a delay in the conduct of election:		
15.	Please write the nomenclature of 'Gram Sabha' as mentioned in the State Act:		

B. Panchayat Elections

Please fill up the boxes as per the questions in respective rows/ (Tick or answer shortly)

1.	Is the State Election Commission in place for conducting Panchayat Elections? (Yes/No)			
	If yes, what is the status of the SEC in the State? (Please tick if applicable)			
	a. High Court Judge			
	b. Chief Secretary			
	c. Secretary to Govt. of India			
	d. Others (Specify)			
2.	Whether, the SEC is at par with a Judge of High Court with respect to:	Emoluments	Service Conditions	Removal
3.	What is the tenure of State Election Commissioner?			
4.	Who appoints the State Election Commissioner?			
5.	Do the SECs use Electronic Voting Machines during elections? (Yes/No)			
	If yes, how many Panchayats have been using EVMs for elections? (Give numbers)	Gram Panchayat	Block Panchayat	District Panchayat
	Does the State provide financial support to SECs for purchase of EVMs & other equipment? (Yes/No)			
	If no, who provides the fund to purchase EVMs?			

C. Dissolution and Bye Elections

Sl. No.	Items	Gram Panchayat			Block Panchayat			District Panchayat		
		2015-16	2016-17	2017-18 till date	2015-16	2016-17	2017-18 till date	2015-16	2016-17	2017-18 till date
1.	Number of Panchayat's term dissolved before the completion of five year since 1 st April 2015									
2.	Of which, the number of bye elections conducted within 6 months									
3.	Number of Head/Member of Panchayat suspended									
4.	Number of Head /Member removed.									
5.	Was the Bye Election conducted by the date? (Yes/No) If not, reason thereon:									

D. Constitution and Function of District Planning Committee (DPC)

Please answer question no. 1 to 6 and 9 & 10 in "Yes" or "No". Please mention numbers in question no. 7 and 8

Sl. No.	Questions	Response
1.	Whether notification/order for DPC is issued by the State Government?	
2.	Whether DPCs are functional and holding meetings for planning purposes; integrating grass root rural and urban plans to District Plans?	
3.	Are there guidelines or rules to make the DPC's functional?	
4.	Whether the State has issued any guidelines for the preparation of District Plan?	
5.	Whether the District Plans takes into consideration the proposals of SHGs, International NGOs, and Financial Institutions etc.?	
6.	Whether Chairperson of DPC is an elected representative of Panchayats/ Municipal Authorities?	
7.	How many DPCs submitted integrated plan to State government in 2017 - 18?	
8.	How many DPCs have submitted integrated plan to State government in 2018- 19 till date?	
9.	Does the Plan of DPC form the part of State plan?	
10.	Are the Gram Panchayats involved in planning at the local level?	

Please write the composition of DPC. Please mention, from which background nominated members are taken. What is the ratio of elected representatives of Panchayats and Municipalities in the total membership of DPC?

RESTRICTED CIRCULATION

E. Role of Panchayats in Parallel Bodies/Institutions

Please tick in appropriate box to show the nature of control of Panchayats on parallel bodies? The list is only indicative. Please add other important parallel bodies.

S.No.	Status/Parallel Bodies	DRDA	Education	Water	Health and Sanitation	Agriculture Corporation	Tribal Development (ITDA)	Any other
1.	Parallel body merged with the Panchayat Institution							
2.	Parallel body made an unit of the Panchayat Institution							
3.	Function of parallel body limited to Fund/accounts Management							
4.	Parallel body is Presided/ Chaired by Elected Representatives of the Panchayat							
5.	Elected Representatives of Panchayats are represented in Board of the parallel body							
6.	Parallel Body remains separate, but under the control of the Panchayat.							
7.	Parallel Body remains separate and not under the control of the Panchayat Institution							
8.	Please mention recent initiative(s) that has/have been undertaken since 1 st April 2017 regarding role of Panchayats in parallel bodies.							

F. Autonomy to Panchayats

Please write the designation(s) of the authority(ies) who has/have the power to Suspend or Supersede (Dissolve) Panchayats/ Suspend or Dismiss Representatives of Panchayats/ resend the resolutions for reconsideration or quash such resolutions. [Please name the authority/ official whose approval is needed.]

Category	Level of Panchayats	Suspend representatives/ Panchayats	Resend for reconsideration of resolutions	Dismiss/Supersede/ Dissolve/Quash
Representatives of	Disttncr Panchayat	*****	*****	*****
	Block Panchayat	*****	*****	*****

	Gram Panchayat	*****
Panchayat Bodies of	District Panchayat	*****
	Block Panchayat	*****
	Gram Panchayat	*****
	District Panchayat	*****
Resolutions of	Block Panchayat	
	Gram Panchayat	
	Gram Panchayat	
Is there any provision of charge sheet by State Government? (Yes/No)	Gram Panchayat	Block Panchayat
Please mention recent initiative(s) that has/have been undertaken in this regard since 1 st April 2017:		

G. Functions Assigned to Panchayats and Actual Involvement of Panchayats

Please tick the appropriate box, if answer is "Yes". Add other important functions but not the revenue collecting functions in this table at the end.

Sl. No.	Functions	Delegated by Legislature	Activity Mapping with date	Executive Order Issued with date	Level of Panchayats Actually Undertaking (Please tick the appropriate box)		
					Gram Panchayat	Block Panchayat	District Panchayat
	Core Functions						
1.	Drinking Water, Water Supply for Domestic Purpose						
2.	Roads						
3.	Culverts						
4.	Bridges						
5.	Ferries						
6.	Waterways						
7.	Other means of Communication						
8.	Building Control						
9.	Land Use and Building Regulation						
10.	Maintenance of Community Assets						
11.	Street Lighting, Parking Lots, Bus Stops						
12.	Public Conveniences						
13.	Parks, Gardens, Playgrounds (Civic Amenities)						
14.	Primary Health Centre/Community Health Centre						
15.	Sanitation & Solid Waste Management						
16.	Cremation & Burial						
17.	Public Safety (Noxious Vegetation, Pests & Vermin s)						
	Welfare Functions						
18.	Poverty Alleviation Programmes						
19.	Family Welfare						
20.	Women & Child Development						
21.	Social Welfare, Welfare of						

	Handicapped & mentally retarded								
22.	Welfare of the weaker sections, and in particular, of the Scheduled Castes & the Scheduled Tribes								
23.	Public Distribution System								
24.	Vital Statistics Including Registration of Births & Deaths								
25.	Elementary Education								
26.	Adult & Non-Formal Education								
27.	Secondary Education								
28.	Technical Training & Vocational Education								
29.	Libraries								
30.	Promotion of Cultural, Educational and Aesthetic Aspects								
31.	Slum Improvement & Up gradation								
32.	Fire Services								
33.	Rural Housing								
34.	Non-conventional Energy								
	Agriculture and Allied Functions								
35.	Watershed Development								
36.	Water supply for Agriculture Purpose, Minor Irrigation, Water Management								
37.	Agriculture & Agricultural Extension								
38.	Land Improvement								
39.	Implementation of Land Reforms								
40.	Land Consolidation								
41.	Soil Conservation								
42.	Animal Husbandry								
43.	Dairying								
44.	Poultry								
45.	Fisheries								
46.	Social Forestry								
47.	Farm Forestry								
48.	Minor Forest Produce								
49.	Market & Fairs								

50.	Regulation of Slaughterhouses						
51.	Prevention of Cruelty to Animals						
	Industries						
52.	Water supply for Commercial and Industrial Purpose						
53.	Small Scale Industries						
54.	Food Processing Industry						
55.	Khadi, Gram & Cottage Industry						
56.	Rural Electrification & Distribution						
57.	Any other						
58.	Any other						
59.	Any other						
60.	Any other						
Please mention recent initiative(s) that has/have been undertaken, with respect to the devolution of functions 1 st since April 2017.							

H. Involvement of Panchayats in Important Schemes & Scheme Based Performance Measures

1. Please tick the appropriate box (es) indicating respective activities undertaken by Panchayats under each scheme.

Sl. No	Important Union Government Schemes	Levels of Panchayats Actually undertaking in each scheme		
		Gram Panchayats	Block Panchayats	District Panchayats
A.	Centrally Sponsored Schemes			
1.	National Social Assistance Program (NSAP)			
2.	Mahatma Gandhi National Rural Employment Guarantee Programme (MNRREGP)			
3.	Scheme(s) for Development of Scheduled Castes			
4.	Scheme(s) for Development of Scheduled Tribes			
5.	Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)			
6.	Green Revolution-Krishonnatti Yojana			
7.	White Revolution- Rashtriya Pashudhan Vikas Yojana			
8.	Blue Revolution(Integrated Development of Fisheries)			
9.	Pradhan Mantri Gram Sadak Yojana (PMGSY)			
10.	Pradhan Mantri Awas Yojana-Gramin (PMAY-G)			

11.	National Rural Drinking Water Mission(NRDWM)			
12.	National Rural Health Mission (NRHM)			
13.	Swachh Bharat Mission-Gramin(SBM-G)			
14.	National Programme of Mid-Day Meal in Schools			
15.	Integrated Child Development Services(ICDS)			
16.	Decendayal Antyodaya Yojana-National Rural Livelihood Mission(DAY-NRLM)			
17.	Rashtriya Swasthya Bima Yojana			
18.	National Education Mission(NEM)			
19.	Shyama Prasad Mukherji Rurban Mission(SPMRM)/National Rurban Mission(NRuM)			
20.	Rashtriya Gram Swaraj Abhiyan (RGS:A)			
21.	Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Rural)- PM-SAUBHAGYA			
22.	Pradhan Mantri Annadata Aay Sanrakshhan Abhiyan(PM-AASHA)			
23.	National Mission for Sustainable Agriculture(NMSA)			
B.	Central Sector Schemes			
1.	Crop Insurance Scheme(Pradhan Mantri Fasal Bima Yojana)			
2.	Interest Subvention Scheme (for Short Term Credit to Farmers)			
C.	Other Schemes			
1.	Deen Dayal Panchayati Raj Infrastructure Scheme			
2.	Deen Dayal Upadhyaya Gram Jyoti Yojana			
3.	National e-Governance Programme(NeGP)			
D.	State Government Schemes			
1.	Pension Schemes			
2.	Health and Sanitation			
3.	Agriculture and Employment			
4.	Any other (specify)			
Scheme Based Performance Measures				
1	Number of Panchayats availing Action Soft (a scheme implementation & monitoring software) or any such equivalent application in place?			
Mission Antyodaya		2016-17	2017-18	
2	Number of Panchayats covered under Mission Antyodaya in the following financial years?			
3	Number of Antyodaya Panchayats marked on NREGA soft portal in the following financial years?			

1. 14th Finance Commission (14th FC) Grants to the Panchayats

I.1 Basic Grants

Please mention amount in Rs. Lakhs and Date/ Month/Year in the format DD/MM/YYYY.

Installments of FFC Grants	FFC Grants Released by Govt. of India		Released by State	
	Amount	Received by State on DD/MM/YYYY	Amount	Released to Panchayats on DD/MM/YYYY
1 st for the year 2014-15				
2 nd for the year 2014-15				
1 st for the year 2015-16				
2 nd for the year 2015-16				
1 st for the year 2016-17				
2 nd for the year 2016-17				
1 st for the year 2017-18				
2 nd for the year 2017-18				
1 st for the year 2018-19				
2 nd for the year 2018-19				

I.2 Performance Grants

Sl.No.	Performance Grants	2017-18	2018-19
1.	Whether Performance Grants have been released to Gram Panchayats for following financial years? (Yes/No)		

2.	If yes, please mention the number of Gram Panchayats that have qualified to get Performance Grants based on scores as mentioned below:		
a.	Number of Gram Panchayats which have scored 71 and above and got 100 % of allocation		
b.	Number of Gram Panchayats which have scored between 61 and 70 and got 80 % of allocation		
c.	Number of Gram Panchayats which have scored between 50 and 60 and got 70 % of allocation		
d.	Number of Gram Panchayats which have scored upto 49 and got 50 % of allocation		
	Mandatory Conditions Related to Performance Grants	2015-16	2016-17
3.	How many Gram Panchayats have submitted Audited Annual Account for the following financial years?		
4.	Number of Panchayats where an increase in Own Sources of Revenue is reflected in the Audited Annual Account for the following financial years?		
5.	Number of Gram Panchayat which have uploaded their GPDP on PlanPlus portal for following financial years?	2017-18	2018-19
6.	How many Gram Panchayats have updated Sector wise Expenditure on dashboard of following e-application in the following financial years? PlanPlus portal RAGAV Any other	2016-17	2017-18
	Additional Conditions Related to Performance Grants		
7.	Number of Gram Panchayats declared Open Defecation Free (ODF) status in the following financial years?	2016-17	2017-18
8.	Number of Gram Panchayats achieved universal immunization (0-2 year age group children) status in the following financial years?		

J. State Finance Commission (SFC)

Whether qualifications and manner of selection of members of SFC are prescribed in the Act/ Rules? (Yes/No)

Period Covered	MM/YY of Formation	MM/YY of Submission of Report	MM/YY of ATR laid before the Legislature
1 st SFC			
2 nd SFC			
3 rd SFC			
4 th SFC			
5 th SFC			
Please State the reasons, if the gap is more than 5 years in the constitution of two SFCs, if there is substantial delay in submission of report by the SFCs or there is substantial delay in laying of the same in the Legislature.			
Please list 5 most important recommendations of last SFC on which ATR is laid before the legislature. Also illustrate the ATR on those recommendations. Please State, if major recommendations of (e.g. Resource Sharing, Assignment of Tax Proceeds, and Grants) have been accepted.			
Whether any fresh allocation, on the basis of SFC, has been made for Panchayats since 1 st April 2017?			

K. Money Transfers to Panchayats on account of the SFC recommendations (Rupees in Lakhs)

Financial Year	Amount Recommended	Amount Budgeted	Amount Sanctioned	Amount Released
2014-15				
2015-16				
2016-17				
2017-18				

2018-19				
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L. Empowerment of Panchayats to Impose and Collect revenue (Taxes/ Fees/ Duties/ Cess/ Toll/ Rent etc.)

Please tick appropriate boxes, if Panchayats are empowered and/or actually collecting taxes. Please add any other Panchayat revenue not in the list.

Sl. No.	Name of Revenues	Please tick only those revenues collected by State agencies on behalf of Panchayats	Please tick only those revenues collected by the State but transferred to Panchayat	Gram Panchayat		Block Panchayat		District Panchayat	
				Empowered to collect	Actually collecting	Empowered to collect	Actually collecting	Empowered to Collect	Actually collecting
1.	House or Building tax								
2.	Surcharge on house or property tax								
3.	Tax on agriculture land for specific purpose								
4.	Cess on land revenue or surcharge								
5.	Surcharge on additional stamp duty								
6.	Tax on professions, trades, calling, etc.								
7.	Entertainment tax								
8.	Pilgrim tax or fees								
9.	Education Cess								
10.	Tolls								
11.	Vehicle tax								
12.	Cattle tax								

M. GST Implications on Panchayats

Sl.No.	Questions	Response						
1.	List out the taxes which have been withdrawn from Panchayats due to GST implementation.							
2.	Any compensatory mechanism/additional grant for Panchayats due to GST implementation?(Yes/No) If yes, please elaborate.							
3.	Is there any fee/tax being levied by Panchayats on sale/purchase of goods in the State?(Yes/No) If yes, please elaborate.							
4.	Is there any order issued by the State allowing Panchayats to levy Entertainment tax?(Yes/No) If yes, please elaborate.							
5.	Is Panchayat allowed to deduct tax at source (TDS) under State GST Act?(Yes/No) If yes, please elaborate with specific provision	<table border="1"> <tr> <td>Gram Panchayat</td> <td>Block Panchayat</td> <td>District Panchayat</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </table>	Gram Panchayat	Block Panchayat	District Panchayat			
Gram Panchayat	Block Panchayat	District Panchayat						
6.	Is Panchayat allowed to collect tax at source (TCS) under State GST Act?(Yes/No) If yes, please elaborate with specific provision							

	If yes, which level of panchayat collects tax at source?(Please tick in the relevant box)		
	Gram Panchayat	Block Panchayat	District Panchayat

N. Fund Available with Panchayats

Please give figures in Rs. Lakhs. Please enter the figures only against the appropriate level of Panchayats.

Sl. No.	Sources of Revenue	Panchayats			Total
		Gram Panchayat	Block Panchayat	District Panchayat	
Financial Year 2016-17					
1.	14th FC transfers to Panchayats by State				
2.	Grant transferred by State to Panchayats united to any scheme				
3.	Grant transferred by State to Panchayats tied to schemes				
4.	Panchayats Own Revenue including collection from rental, lease, etc.				
5.	Loan taken by the Panchayats				
6.	Any other transfer-Please specify				
	Total				
	Total Fund Available (from all sources) in all Panchayats of the State.				
Financial Year 2017-18					
1.	14th FC transfers to Panchayats by State				
2.	Grant transferred by State to Panchayats united to any scheme				
3.	Grant transferred by State to Panchayats tied to schemes				
4.	Panchayats Own Revenue including collection from rental, lease, etc.				
5.	Loan taken by the Panchayats				
6.	Any other transfer-Please specify				
	Total				
	Total Fund Available (from all sources) in all Panchayats of the State				

O. Expenditure of Panchayats

Sl. No.	Item	2015-16	2016-17	2017-18	2018-19
1.	Expenditure on Salaries for Panchayat Officials by the State				

2.	Expenditure on Salaries paid by the Panchayat			
3.	Expenses on Operation and Maintenance (O&M)			
4.	Travel Allowances			
5.	Capital Expenditures (Under following heads)			
	a) Water Supply			
	b) Sanitation and Hygiene related works			
	c) Drainage & Street			
	d) Maintenance of Road Infrastructure			
	e) Maintenance of Community assets			
6.	Expenditure on Schemes			
7.	Any Other			
8.	Total Expenditure made by all Panchayats of the State			

P. Recent Initiatives related to Finance and Accounts

Please mention new initiatives undertaken since April 2017 with respect to the following:

Sl.No.	Item	Response
1.	Supplement to State Budget for Panchayats	
2.	Placing the Annual Report of Panchayat Audit before the State Legislature	
3.	Electronic funds transfer system for Panchayats	
4.	Strengthening Panchayat to levy Property Tax.	
6.	Setting standard for the delivery of essential civic services.	
8.	Steps taken to identify Common Property Resources	
9.	Steps taken to enumerate properties in villages	

Q. Budget, Accounting and Audit

1.	Does the State law have provisions related to maintenance of accounts and audit? (Yes/No)				
2.	Please state recent guidelines and other initiatives introduced.				
3.	Whether Budget & Account format (Model Accounting system) for Panchayats as prescribed by C&AG is followed? (Yes/No) If yes, in which year it was introduced?				
4.	Is the State taking any efforts to post the following documents of the Panchayats online? (Please tick)				
	a. Budget Proposals				
	Accounts Statements				
	Audited Accounts				
	Annual Performance Report				
	If yes, specify the website, where accounts of Panchayats are available. If not, what are the actions taken to make it online?				
5.	How many Panchayats have disclosed Account Statement online? (Please give numbers)				
6.	Number of Panchayats using PRIA Soft(Panchayati Raj Accounting Software) or any equivalent Accounting Application (Pls. specify the version of PRIA Soft in bracket)				
7.	Who undertook the process of updating accounts online? (Own Staff/Outsourced)				
8.	Number of Panchayats audited by the Accountant General (C&AG) in the fiscal year 2017-18:				
9.	Number of Panchayats audited by the Local Fund Audit in the fiscal year 2017-18:				
10.	Are the Consolidated Audit Reports of Panchayats for 2017-18 placed in State Assembly? (Yes/No)				
11.	Has the State developed a Financial Database for revenue and expenditure of Panchayats? (Yes/No) If yes, how many Panchayats are included in such data? (Please give numbers)				
12.	Are there trained staffs available for maintenance of accounts at the GP level?				

13	Who audits the accounts of Panchayats in the State? (Please tick)			
	C&AG	Gram Panchayat	Block Panchayat	District Panchayat
	Local Fund Audit Others (Specify)			
Please name the departments in the State Govt. having Account with Panchayat Head:				
a)				
b)				
c)				
d)				
Please describe, if any recent initiative(s) have been undertaken related to Accounting & Audit since 1 st April 2017.				

R. Social Audit and DISHA Committee

1.	Please elaborate the Rules and Orders regarding Social Audit in the State. (Copies may be provided)		
2.	Is Social Audit conducted in the State? (Yes/No)		
	If yes, who conducts it:	Gram Sabha	Others (Specify)
3.	Please explain the administrative structure for the conduct of social audit:		
4.	Are there social audit teams in the State? (Yes/No)		
	If yes, how many such teams are in existence?		

	MNREGS	PMAY	SSA	ICDS	DDUAY	Other
5. Are social audits conducted for these schemes? (Please tick)						
6. How often are the social audits conducted?	Once in a year	Once in 6 months		Others (Specify)		
7. Are the reports of social audits put in public domain? (Yes/No) If yes, how such reports are disseminated?						
8. Are the Action Taken Reports of Social Audit discussed in GS Meeting? (Yes/No)						
9. Is there any training available at the state to conduct social audit? (Yes/No) If yes, who imparts the training?	State Institutions	NGOs	CBOs	Others (Specify)		
10. To whom the training is being imparted for Social Audit?	Panchayat Officials	Elected Representatives	Citizens	Others (Specify)		
District Infrastructure Scheme Advisory Committee (DISIA)						
11. Whether DISIA committee has been constituted at the following levels? (Yes/No)	State		District			
If yes, please answer the following questions:						
12. What are the numbers of 'official' and 'non-official members' in the existing DISIA committee at State level? (Please Specify)						
13. Number(s) of District(s) in the State that have constituted DISIA committees (till 1 st December 2018)	2017-18					
14. How many DISIA meetings have been conducted at the State level in the following financial years? (Please mention in DD/MM format)	2018-19					
15. Whether any order/guidelines issued for monitoring or compliance mechanism set up at the State level to monitor the District level DISIA Committee?(Yes/No)						

If yes, please mention in brief.	
S. Gram Sabha (GS)	
Is there any minimum number of Gram Sabha meetings mandated? (Yes/No)	
Is there a system in the State to monitor and ensure the mandated quorum of GS meetings in each Panchayat? (Yes/No)	
If so, please elaborate:	
2.a. Mention the numbers of "Structured Gram Sabha Meetings" (i.e. Meetings having physical presence of Frontline Workers/Supervisors of 29 matters listed in 11th Schedule of the Constitution) since Oct 2018?(If Any)	
2.b. As per the State Panchayat Act, enumerate the powers and functions of Gram Sabha:	
a)	
b)	
c)	
d)	
e)	
Is there a mandated Quorum for Gram Sabha meetings? (Yes/No)	
If yes, what is the prescribed quorum of GS in the State?	
Has the State issued guidelines as to how the Gram Sabha Meetings can be convened? Please elaborate:	
How many Special Gram Sabha meetings are convened by the State in 2017-18?	
Do the Gram Sabha have sufficient funds to convene GS Meeting and for videography/photography of such meeting? (Yes/No)	
In case of insufficiency of funds, do the State provide fund to Gram Panchayats for convening Gram Sabha meetings?(Yes/No)	
8. In case of non-convening of Gram Sabha, what are the actions taken by the State, if any?	
9. Elaborate the measures taken by the State to promote people's assemblies below Gram Sabha, including the following in Gram Panchayats?	
a. Ward Sabha:	
b. Mahila Sabha:	
c. Any other	

10.	Has the State taken any measure for the following? (Yes/No)	
	Minutes Preparation of Gram Sabha Meeting	
	b) Ensuring that Number of Meetings are held	
	If yes, please elaborate the measures:	
11.	What is the role of Gram Sabha that the State has identified in the following?	
	a. Planning	
	Budget Preparation	
	Passing of Accounts	
	Social Audit	
	Preparation of BPL List	
	Preparation of Beneficiary list (Under the following schemes)	
	MGNREGA	
	PMAY	
	DDUAAAY	
	Others (Specify)	
	Preparation of Labour Budget under MGNREGA	
	Any other (Specify)	
12.	What the State has done to strengthen Standing Committee of Panchayats? Please elaborate.	
13.	Has the State recommended for 'Nanaji Deshmukh Rashtriya Gaurav Gram Sabha Puraskar' in 2017-18? (Yes/No)	
14.	Any other steps taken by the State for community mobilization for matters including inclusive participatory planning.	
	Recent initiative(s) undertaken since 1 st April 2017 to strengthen "Gram Sabha":	

T. Gram Panchayat Development Plan (GPDP)

Sl. No.	Questions	Response
1.	Number of Gram Panchayat that have formulated GPDP in the State till 31 st December 2018.	

2	Whether such GPDP is being integrated on Plan Plus Software? (Yes/No)			
3	Whether any State level Steering Committee has been formulated for convergence of GPDP-FFC & SHG? (Yes/No)			
4	Numbers of panchayat(s) in the State that has/have received Gram Panchayat Development Plan Award-2018.			

U. Transparency and Anti-corruption

Sl.No.	Questions	Gram Panchayat	Block Panchayat	District Panchayat
1	Whether the following Panchayats provide information to the public under RTI Act? (Yes/No)			
2	Who is the Information Officer under RTI Act at each Panchayat? (mention their designations)			
3	Who is the 1st Appellate Authority under RTI Act? (mention their designations)			
4	Who is the 2 nd Appellate Authority under RTI Act? (mention their designations)			
5	How many Panchayats submitted Annual Report to their respective authorities in 2017-18? (Please give numbers)			
6	Has the State made any policy for disclosure of information by the Panchayat to the public? (Yes/No) If yes, what are the modes used for disclosure of information? Display on Notice Boards Website Others (Specify)			
7	Does the State have the provision of Citizens' Charter at each level of Panchayats? (Yes/No) If yes, does the charter have the following? Please tick List of services Procedure for obtaining the service Time required for providing service Grievance redress Mechanism (GRAM) Others (Specify)			
8	Which institution undertakes the complaints of Panchayat? Please tick Ombudsman			

	Lokayukta			
	Govt. Agency			
	Others (Specify)			
9	Number of cases reported for action by the above institutions in the last fiscal year. (Give numbers)			
10	Number of complaints received against the following. (Please give numbers)	Elected Representatives	Panchayat Officials	Others (Specify)
Please describe recent initiatives undertaken since 1 st April 2017 with respect to transparency improvement in Panchayats:				

V. Infrastructure of Panchayats (Physical and Digital)

Please write numbers. The list is only indicative. Please add other most important infrastructures in last rows.

Sl. No.	Equipments & Applications	Gram Panchayat	Block Panchayat	District Panchayat
1.	How many Panchayats have Panchayat 'Ghat' (Pucca building)?			
2.	How many Panchayats have Computers, Printers & other peripherals?			
3.	How many Panchayats have Scanners?			
4.	How many Panchayats have Telephone?			
5.	How many Panchayats have Internet?			
6.	Has the State Government taken any measure for construction of new GP buildings, repair of existing buildings, construction of barrier free access, construction of toilets (including separate toilets for women) and electricity and water connections?			
7.	Staff Structure of Gram Panchayats	Secretary	Community Resource Person	Junior Engineers
	Please tick, if applicable			
	How many Gram Panchayats have the following staff?(in Numbers)		Technical Assistants	Data Entry Operators
			Accountant	Others (Pl. specify)

Who pays the salary of the above staff?									
What percentage of Panchayat staff salaries are met by the State?									
20% - 40%									
41% - 60%									
61% - 80%									
81% - 100%									
Any other (Please specify)									
Recent initiatives taken since 1 st April 2017 with respect to infrastructure development of Panchayats :									

W. Panchayat Officials

Whether any Panchayat Service exists? (Yes/No)	
If yes, which year it was introduced:	

(i) Please give sanctioned and actual staff position of Panchayat's own office only (no other officials under its control) for the entire State/UT.

Sl. No.	Designation of Employee (pls. tick where applicable)	Nature of Appointment		Existence of Rules (Tick)		Designation of Recruiting Authority	Sanctioned Strength	Actual Number	Vacant
		Regular	Contractual	Recruitment Rules	Service Rules				
Gram Panchayat									
	Designation					(Copies of Recruitment Rules and Service Rules may be sent)			
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
	Total								

Employees		Nature of Appointment		Existence of Rules (Tick)		Designation of Recruiting Authority	Sanctioned Strength	Actual Number	Vacant
Block Panchayat	Designation	Regular	Contractual	Recruitment Rules	Service Rules				
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
Total Employees									
Sl.No.	Designation of Employee (pls. tick where applicable)								
District Panchayat									
	Designation	Nature of Appointment		Existence of Rules (Tick)		Designation of Recruiting Authority	Sanctioned Strength	Actual Number	Vacant
		Regular	Contractual	Recruitment Rules	Service Rules				
1.									
2.									
3.									
4.									
5.									
6.									
7.									

Whether the institutional support for training is available throughout the year or only after elections?	
How long does the State Institute take to complete the training of all officials and elected representatives?	
Numbers of ETCs (Extended Training Centers) active in the State (till 1 st December 2018)	2017-18
Amount of funds released by Ministry of Rural Development to SIRD and ETCs in the state for the following financial years?	2018-19
a) Recurring Grants	
b) Non-recurring Grants	

X.2 Training Activities

1. Whether any Training Needs Assessment for Panchayats is conducted in the State in the last three years? (Yes/No)	
2. In case of residential training, is it through 'hired arrangement' or 'regular institutional arrangement'?	
3. What are the topics of training covered in 2017-18?	
a.	
b.	
c.	
d.	
e.	
4. Does the State provide training material in local language? (Yes/No)	
5. In what form the training materials were provided in 2017-18? (Please tick)	
Written material	
Training films	
Film shows	
CDs	
e) Others (Specify)	
6. What are the various methods adopted for training?	

7.	Is there distance learning through satellite based training in 2017-18? (Yes/No)
	If yes, how many Block Resource Centers are in existence? (Please give numbers)

X.3 Training Details of Elected Representatives and Officials

Sl. No.	Level and Year	Total Number of		Number of Trained	
		Elected Representatives	Panchayat Officials	Elected Representatives	Panchayat Officials
1.	District Panchayat				
	2016-17				
	2017-18				
	From 2018 till date				
2.	Block Panchayat				
	2016-17				
	2017-18				
	2018 till date				
3.	Gram Panchayat				
	2016-17				
	2017-18				
	2018 till date				
4.	Percentage of Elected Representatives trained in 2017-18	Women		Men	
5.	Percentage of Elected Representatives trained in the following categories in 2017-18	SC (%)	ST (%)	G	General (%)

6.	Is there any mechanism to assess the impact of training provided? (Yes/No)	
7.	If yes, please elaborate:	

Y. Panchayat Assessment and Incentivization

1	Whether there is Performance Audit for Panchayats? (Yes/No) If yes, state the number of Panchayats in the State where Performance Audit was conducted during the last financial year 2017-18.			
2	Does the State measure the performance of the following levels of Panchayats? (Yes/No)	Gram Panchayat	Block Panchayat	District Panchayat
3	If yes, please mention the performance assessment tools used by the State: What are the corrective measures taken, in case of non-compliance?			
4	Has the State framed the following for assessing the performance of Panchayats under RGSA/PSA? If yes, please tick			
	a) Indicators			
	b) Questionnaire			
	c) Scoring plans for assessment			
5	How many Panchayats have submitted information for the PSA/RGSA in 2017-18?	Gram Panchayat	Block Panchayat	District Panchayat
6	Has the State instituted any other prize (\$) for Panchayats? If so, please name:			
7	Has the State instituted any prize for best performing Elected Representatives? (Yes/No) If yes, please specify the prize:			
8	In what way do you support the activities of the poor performing Panchayats? Please elaborate: Recent initiatives taken since 1 st April 2017 with regard to Performance Assessment, Monitoring and Evaluation:			

Z. e-Connectivity & ICT Measures Taken

Sl.No.	Questionnaire	Gram Panchayat	Block Panchayat	District Panchayat
1.	How many Panchayats have computers? (in numbers)			
2.	How many Panchayats use wireless connectivity?			
3.	How many Panchayats is part of the National Optical Fiber Network?			
4.a.	How many Panchayats have their e-mail address (es)?			
4.b.	How many Panchayats have digital literacy coverage more than 50 % (Under the purview of PMGDISHA/Pradhan Mantri Gramin Digital Saksharta Abhiyan)			
5.	How many Panchayats are covered under Bharat Net Project?			
6.	How many Panchayats are regular in uploading their data online?			
7.	Do the Panchayats use ICT for delivering services? (Yes/No)			
8.	If yes, how many Panchayats use Information Technologies, for service delivery/DBI? (Give numbers)			
9.	What all services are delivered using ICT in the Panchayats			
10.	How many Panchayat officials have been trained in computer applications?			
10	In the process of computerization do the Panchayats have the following support? Please tick, if applicable			
	a. Technical Support			
	Hardware			
	Connectivity			
	Others (Please specify)			
11	Are the following software applications adopted in the State?	PlanPlus	PRLA Soft	
12.	How many other software applications are existing/coming up? Please tick, if applicable			
	a. Local Govt. Directory			
	Panchayats Profiler			
	Asset Directory			
	Action Soft			
	Grievance Redress Mechanisms(GRMs)			
	Social Audit			
	Training Management			

	GIS	
	Panchayats Portals	
	Service Plus	
13	Is/are there any major induction and operational difficulties(s) being faced by Panchayats in using above mentioned PIS(Panchayat Enterprise Suite) software? (Yes/No) If yes, please mention the same in brief.	
14	Has the State developed its own software for the functioning of Panchayats? (Yes/No) If yes, name the software developed by the State? a) b) c) d) e)	
15	Is there any order issued by the State for establishing Project Management Units at State level under e-Mission Mode Project?(Yes/No) If yes, please specify the same in brief.	
16	Has the State been nominated for the e-Panchayats Award? If yes, when the State was nominated?	
	Recent initiatives taken since 1 st April 2017 with respect to e-Connectivity and ICT transmission:	

Thank You!