

STILL NO RECOGNITION OF THE THIRD TIER

Relevant for: Indian Polity | Topic: Devolution of Powers & Finances up to Local Levels and Challenges therein - Panchayats & Municipalities

This article is a brief critique of the recommendations of the Fifteenth Finance Commission with regard to local governments. The primary task of the Union Finance Commission is to rectify the vertical and horizontal imbalances in resources and expenditure responsibilities between Union and States, which after the 73rd and 74th Constitutional Amendments includes the third tier of local governments. This Commission is the fifth after the incorporation of Part IX and Part IX-A to the Constitution which mandate the Union Finance Commission to supplement the resources of panchayats and municipalities on the basis of the recommendations of the State Finance Commission (another institution created by the Amendments). Now, nearly 2.5 lakh local governments and over 3.4 million elected representatives form the real democratic base of the Indian federal polity. Unlike the previous Commissions, the Fifteenth Finance Commission was in the background of the COVID-19 pandemic which reinforced the significance of local governments, *gram sabha* and other participatory institutions in containing the crisis and delivering social protection in India.

While there are some critical lacunae in its recommendations regarding local governments, the Fifteenth Finance Commission has several positive aspects to be said in its favour. For one, the vertical devolution recommended to local governments is raised remarkably high. From a measly share of 0.78% of the divisible pool with an absolute sum of 10,000 crore by the Eleventh Commission, the Fifteenth Finance Commission raised it to 4.23% with a reasonably estimated amount of 4,36,361 crore. Compared with the Fourteenth Finance Commission there is a 52% increase in the vertical share. Even if we deduct the grant of 70,051 crore earmarked for improving primary health centres, the share is still an all-time high of 4.19%.

Continuity and change should be the overarching salience of a transfer system, which is designed to build a viable third tier to Indian democracy. All the Commissions since the Eleventh Commission have tied specific items of expenditure to local grants and the Fifteenth Finance Commission has raised this share to 60% and linked them to drinking water, rainwater harvesting, sanitation and other national priorities in the spirit of cooperative federalism.

However, it reduced the performance-based grant to just 8,000 crore — and that too for building new cities, leaving out the Panchayati Raj Institutions (PRIs) altogether. The performance-linked grants thoughtfully introduced by the Thirteenth Finance Commission earmarked 35% of local grants specifying six conditions for panchayats and nine for urban local governments and covered a wide range of reforms: from the establishment of an independent ombudsman to notifying standards for service sectors such as drinking water and solid waste management.

The Fourteenth Finance Commission, however, cut the performance grant share to 10% for *gram* panchayats and 20% to municipalities with the conditionality that all local governments will have to show improvements in own source revenue. Municipalities are additionally required to publish service level benchmarks for basic services. The transformative potential in designing performance-linked conditionalities for improving the quality of decentralised governance in the context of indifferent states is missed.

An important recommendation of the the Fifteenth Finance Commission is the entry-level criterion to avail the union local grant (except health grant) by local governments (strictly speaking, it is performance-linked). For panchayats, the condition is online submission of annual accounts for the previous year and audited accounts for the year before. For urban local

governments, two more conditions are specified: after 2021-22, fixation of minimum floor for property tax rates by the relevant State followed by consistent improvement in the collection of property taxes in tandem with the State's own Gross State Domestic Product. It is not clear why *gram* panchayats (especially the affluent and semi-urban categories) are left out from this. Although Finance Commissions, from the Eleventh to the Fourteenth, have recommended measures to standardise the accounting system and update the auditing of accounts, the progress made has been halting. Therefore, the entry-level criteria of the Fifteenth Finance Commission are timely. The moot question is, will this bring about substantive changes? The Eleventh Finance Commission published the fiscal data of all tiers of panchayats and municipalities in its report. But the data proved defective. The Twelfth Finance Commission did not publish any local fiscal data. The Thirteenth Finance Commission published data online and some researchers did use them. Unlike the previous Commissions, the Fourteenth Finance Commission conducted a sample survey covering 15% *gram* panchayats, 30% block panchayats and all district panchayats besides 30% municipalities, presumably to ensure quality in canvassing data. The results too were not published. Interestingly, neither the Fifteenth Finance Commission nor the earlier counterparts took pains to examine how and where the financial reporting system has failed. Without reliable data can you ensure good governance?

The Fifteenth Finance Commission, which generally takes care to go into details (see recommendations on health care, air pollution etc.) and is well aware of India's regional heterogeneity, failed to carry policy choices forward systematically. Articles 243G, 243W and 243ZD read along with the functional decentralisation of basic services like drinking water, public health care, etc., mandated in the Eleventh and Twelfth schedules demand better public services and delivery of 'economic development and social justice' at the local level. While the grants to the primary health centres must be acknowledged as a great gesture, a good opportunity to ensure comparable minimum public services to every citizen irrespective of her choice of residential location has not been taken forward in an integrated manner.

It may be relevant to recall that the Alma-Ata declaration of the World Health Organization (1978) which outlined an integrated, local government-centric approach with simultaneous focus on access to water, sanitation, shelter and the like. The Fifteenth Finance Commission claims that it seeks to achieve the "desirable objective of evenly balancing the union and the states". It is not clear why there is no recognition of the third tier in this balancing act. Although the Fifteenth Finance Commission outlines nine guiding principles as the basis of its recommendation to local governments, there is no integrated approach (in contrast to the recommendations of the Thirteenth Finance Commission). It is forgotten that public finance is an integrated whole. That the tasks of the Union Finance Commission were broadened as part of the decentralisation reforms (280(3) (bb) and (c)) is a firm recognition of the organic link of public finance with the development process at all tiers of government. Although the Fifteenth Finance Commission stresses the need to implement the equalisation principle, it is virtually silent when it comes to the local governments.

It is equally important to note that in the criteria used by the Fifteenth Finance Commission for determining the distribution of grant to States for local governments, it employed population (2011 Census) with 90% and area 10% weightage the same criteria followed by the Fourteenth Finance Commission. While this ensures continuity, equity and efficiency criteria are sidelined. Equity is the foundational rationale of a federation. Abandoning tax effort criterion incentivises dependency, inefficiency and non-accountability.

In sum, if decentralisation is meant to empower local people, the primary task is to fiscally empower local governments to deliver territorial equity. We are far from this goal.

M.A. Oommen is Honorary Fellow, Centre for Development Studies and Honorary Professor,

Gulati Institute of Finance and Taxation, Thiruvananthapuram

Please enter a valid email address.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS.com