



“In our view, the rewards that come from placing trust in local bodies far exceed the costs associated with administering and complying with conditionalities<sup>1</sup>.”

## 14<sup>TH</sup> FINANCE COMMISSION - DEVOLUTION OF FUNDS TO STATES<sup>2</sup>

Government of India has accepted the recommendations of the 14<sup>th</sup> Finance Commission, fulfilling its pledge to treat States as partners in long-term development. The Centre will transfer a much bigger share (42%) of its taxes to States, a 10 percentage point jump from last fiscal, translating to an estimated Rs. 1.78 lakh crore. The total devolution of funds to States in the current fiscal will be Rs. 5.26 lakh crore against Rs. 3.48 lakh crore in the last fiscal.

However, the recommendations of the commission will have a substantial impact on the Central budget with a number of departments witnessing reduction in their allocations. Support to eight centrally sponsored schemes will be discontinued although the commission recommended discontinuation of support to nearly 30 schemes. But the increase in States’ share of union tax revenue is the largest ever jump in percentage of devolution.



“Following acceptance of the Commission’s recommendations, we are moving away from rigid centralized planning forcing an approach of one-size-fits-all on States<sup>3</sup>.”

### CORE PHILOSOPHY

The commission has taken a comprehensive view of transfers, including both non-plan and plan expenditures, anchored on greater trust between the union, states and local bodies with the firm belief that all three layers are equally endowed with wisdom, knowledge, integrity and effectiveness. The commission has also focused upon enhanced flow of resources in an assured, objective and untied manner.

### DEVOLUTION CRITERIA AND WEIGHT

Criteria	Weight [%]
Population	17.5
Demographic Change	10
Income Distance	50
Area	15
Forest Cover	7.5

### KEY FEATURES

In calculating grants to States, the entire revenue expenditure is taken into account without making distinction between ‘Plan’ and ‘Non-Plan.’ Calculations for distribution of divisible proceeds are based on the formula incorporating parameters of population (1971), changes in population since then, income distance, area and forest cover. Post devolution, revenue deficit grant-in-aid is to be given to 11 states that have been identified.

### POSITIVE IMPLICATIONS

With greater fiscal space, States can meaningfully contribute to the overall growth and development in their regions, thereby adding to the aggregate growth of the nation. States will now have the flexibility to implement delinked CSS as per local needs. This should ideally ensure efficient utilization of government resources.

### RISKS

In the near term, huge tax devolution could put some strain on Centre’s finances, especially until major CSS get delinked and GST is implemented. With greater discretionary funds with States, there is a risk of wastage of funds by some States towards populist and non-productive ends.

### STATES’ SHARE IN DIVISIBLE POOL OF UNION TAXES

State	Share [%]
Andhra Pradesh	4.305
Arunachal Pradesh	1.370
Assam	3.311
Bihar	9.665
Chhattisgarh	3.080
Goa	0.378
Gujarat	3.084
Haryana	1.084
Himachal Pradesh	0.713
Jammu and Kashmir	1.854

State	Share [%]
Jharkhand	3.139
Karnataka	4.713
Kerala	2.500
Madhya Pradesh	7.548
Maharashtra	5.521
Manipur	0.617
Meghalaya	0.642
Mizoram	0.460
Nagaland	0.498
Odisha	4.642
Punjab	1.577
Rajasthan	5.495
Sikkim	0.367
Tamil Nadu	4.023
Telangana	2.437
Tripura	0.642
Uttar Pradesh	17.959
Uttarakhand	1.052
West Bengal	7.324



“Central to the trust-based approach adopted by us is the understanding that the local bodies will discharge their statutory functions with all due care<sup>4</sup>.”

### GRANTS TO LOCAL GOVERNMENTS

Recognizing that local governments (ULBs & PRIs) have a critical role in delivering basic services to citizens, the Commission has sought enhancement of grants to them with minimal conditionalities. Placing greater trust in local governments, the Commission provided for unconditional support to improve the status of core services delivered by local governments. Key elements identified are water supply, sanitation, SWM, sewerage, drainage etc. The Commission emphasized on convergence of funds and activities at all levels of government and schemes that enhance basic services for citizens.

<sup>1</sup> Report of the 14<sup>th</sup> Finance Commission, Government of India  
<sup>2</sup> Highlights of 14<sup>th</sup> Finance Commission Report, FICCI, Feb 2015  
<sup>3</sup> Excerpts from Prime Minister’s letter to the Chief Ministers  
<sup>4</sup> Report of the 14<sup>th</sup> Finance Commission, Government of India  
 Infographics: The Economic Times of India