DEVOLUTION OF UNION FINANCE COMMISSION GRANTS TO PANCHAYATS

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A study for the Fifteenth Finance Commission

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ACCOUNTABILITY INITIATIVE

CENTRE FOR POLICY RESEARCH

LIST OF ABBRIEVIATIONS

AG	Accountant General
ATR	Action Taken Report
BG	Basic Grant
C&AG	Comptroller and Auditor General
CEO	Chief Executive Officer
CBO	Community Based Organisation
CPR	Centre for Policy Research, New Delhi
CSS	Centrally Sponsored Schemes
DC	Deputy Commissioner/District Collector
DLFA	Director of Local Fund Audit
DPC	District Planning Committee
DRDA	District Rural Development Agency
FC	Finance Commission
FFC	Fifteenth Finance Commission
FoFC	Fourteenth Finance Commission
FY	Financial Year
GO	Government Order
GP	Gram Panchayat
LG	Local Government
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MoF	Ministry of Finance
MoPR	Ministry of Panchayati Raj, Government of India
MoRD	Ministry of Rural Development, Government of India
MPLADS	Member of Parliament Local Area Development Scheme
NIC	National Informatics Centre
ODF	Open Defecation Free
O&M	Operations and Management
OSR	Own Sources of Revenue
PESA	Panchayats (Extension to the Scheduled Areas) Act, 1996
PG	Performance Grant
PRI	Panchayat Raj Institutions
RLB	Rural Local Body
Schedule V	The Fifth Schedule of the Constitution
Schedule VI	The Sixth Schedule of the Constitution
SHG	Self-Help Group
TFC	Thirteenth Finance Commission
TG&S	Technical Guidance and Supervision
ToR	Terms of Reference
ULB	Urban Local Body
VP	Village Panchayat
ZP	Zila Panchayat, Zila Parishad

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EXECUTIVE SUMMARY

- The Tenth, Eleventh and Twelfth Finance Commissions broadly recommended grants for Local Bodies (LBs), amounting to between 1 to 1.5 percent of the Central divisible pool. The Thirteenth Finance Commission (TFC) broke fresh ground in increasing the allocation to around 2.5 percent of the divisible pool and earmarking a part of the grant for performance, based on the meeting of conditionalities that it laid down. That trend was continued by the Fourteenth Finance Commission (FoFC), which recommended nearly 4.5% of the divisible pool as grants to LBs. Importantly, the FoFC restricted the grant only to Village Panchayats (also commonly referred to as Gram Panchayats (GPs), and mandated that these funds be used only for the delivery of core services that have been devolved to them. Grants were devolved in to components a Basic Grant (BG) and Performance Grant (PG).

- The FoFC prescribed simple conditionalities linked to the PGs. These were a) the states submitting audited accounts for a year not earlier than 2 years preceding the year in which the LB seeks the performance grant and b) GPs increasing their own source revenue (OSR) over the preceding year as reflected in the audited accounts. States were expected to prepare their 'schemes' detailing how PGs would be drawn and distributed within a year in order to be eligible to receive performance grants from 2016-17 onward.

Releases to LB and the impact of conditionalities

- Overall the ability of states governments to draw Finance Commission (FC) grants has been relatively slow. One important reason is the introduction of performance grants by the TFC and FoFC. Nearly a quarter of the overall grants recommended by the TFC lapsed at the end of the period of the report's currency. Cumulative releases of FoFC performance grants is only 55 percent at present, which is unsatisfactory. However, there are state variations and some States have shown very sluggish performance (see table A)

Table A: Percentage of allocation drawn by States

States	FoFC		TFC	
	Basic	**Perf**	**Basic**	**Perf**
Goa	25	47	14	7
Arunachal Pradesh	42	47	52	7
Jammu & Kashmir	25	46	NA	21
Punjab	42	47	NA	NA
Assam	13	47	NA	NA
Tamil Nadu		47		21
Uttarakhand		47		7
Odisha		47		7
Mizoram	Not allocated grants by FoFC		52	27
Nagaland			23	7
Meghalaya			52	7

Goa and Arunachal Pradesh have consistently shown sluggish offtake of both Basic and Performance Grants during the FoFC and TFC periods. Jammu and Kashmir has shown satisfactory performance only for TFC basic grants, failing to draw adequate FoFC grants and TFC Performance Grants. Punjab and Assam have not drawn more than 50 percent of Basic and Performance Grants during the FoFC period. Tamilnadu, Uttarakhand and Odisha have not adequately drawn Performance Grants during both FC periods. Mizoram, Nagaland and Meghalaya were allocated grants by the TFC even though they do not come under the purview of Part IX of the Constitution. However, they drew only a low proportion of their allocated grants.

- There has been 'Mission Creep' by the MoF and MoPR through the imposition of more conditionalities upon Panchayats and States, over and above those suggested by the FoFC. This has been in spite of the GOI accepting the recommendations of the FoFC in toto, including that no more conditionalities ought to be imposed other than those suggested by the FoFC. In an order[1] dated 8/10/2015, MoF suggested that all GPs prepare a GP Development Plan (GPDP), in order to undertake expenditure of these grants. The MoPR brought out elaborate Model Guidelines for GPDP, which laid down the framework for State governments and GPs to operationalize GP level planning, which converges funds from FoFC with other GOI Centrally Sponsored Schemes (CSSs) as well. Further orders and advisories issued by MoF and MoPR have directed GPs to make investments on specific sectors or items such as drinking water supply, installing dustbins, construction of toilets in schools and anganwadis, use of PlanPlus software to monitor GPDP and on utilization of FoFC funds for O&M and capital expenses. While these are desirable outcomes, they force GPs to spend funds on matters that States do not wish to transfer to the former's functional domain. For example, it seems unfair to burden GPs with the target of total immunization, when in most parts of the country, the programmatic interventions to achieve total immunization are not devolved to the GPs and do not function under their control and superintendence.

- MoPR also created an elaborate scoring system to rank GPs (September 2017) that would be eligible for the release of performance grants based on a) Increase in OSR quantum b) declaration of ODF status of GP c) Immunization status. It has persuaded States to prepare their 'Schemes' for drawing of PGs in conformity with these model guidelines. States have readily complied, except for one exception amongst the States studied in depth by this team.

- The imposition of the preparation of a GPDP as a necessary condition for the receipt of FoFC funds has the potential to undermine the overarching objective of the FoFC recommendations. While the FoFC charged the state governments to decide on the operational criteria for the release of PGs, it did not envisage that Union Ministries would crowd out the authority of the states. Furthermore the GPDP approach overlooks the role of constitutionally mandated District Planning Committees (DPCs) in consolidating draft development plans and have created a parallel system for GPDP planning through the constitution of coordinating committees at the intermediate, district and state levels.

- MoPR has recently modified (January 2019) its earlier directive of September 2017, stating that release of PGs for 2017-18 have been pending due to "implementation difficulties faced by some States to comply with all the additional conditions/evaluation criteria and the resultant situation of very less number of Gram Panchayats becoming eligible for PG for 2017-18."

[1] MoF order No. 13 (32) FFC/FCD/2015-16 by GOI, Ministry of Finance, Department of Expenditure dates 8 October 2015

Therefore, it has reverted to the earlier PG scheme prescribed by the FoFC with only two conditions, namely, submission of audited accounts and increase in OSRs, with a maximum cap of 5 times the basic grant allocation for GPs. States have been requested to modify their PG Schemes accordingly.

The complex tug of war between Union and State governments in implementing FC recommendations

- The imposition of conditionalities and performance grants that can be drawn only if these are met, has led to some interesting dynamics between the Union, the States and the LBs. Two phenomena have distinctly emerged. First, the imposition of conditionalities, both as prescribed by the FCs and by the Union Government have adversely impacted the drawing of PGs. Second, while States have declared formal compliance with the letter of some conditions (such as facilitating taxation by the Panchayats), they display no real interest in fulfilling the spirit of such conditions.

- Paradoxically States, which are often perceived as the bottleneck delaying and diverting funds that ought to go to LBs, have tended to fall in line with the main conditionalities (even as they have ignored some advisories, for example, the one on sharing of mining revenues with the LBs). On the other hand, Union Ministries such as the MoPR, anxious to implement its policy agenda to strengthen decentralization, have imposed further conditions not envisaged by the FoFC. The trend to impose conditionalities has led to the temptation for mission creep and both are going to be a reality that will need to be addressed in future. If such trends are not nipped in the bud, more ministries and departments will find ways of creeping up to control the finances of LBs and the benefits of the expanding window of finances to the latter will be negated. They cannot undermine the need to fund the LBs to meet their formal functional mandates, particularly their responsibility to deliver core services of a higher standard than at present.

- There is a risk that perverse incentives can emerge as an undesirable outcome of the imposition of conditionalities. The condition that funds ought to flow within prescribed time limits to the Panchayats, failing which interest has to be paid at the prevailing RBI rate to them, is not sufficient disincentive to prevent delay and diversion. At least one State continues to delay and divert funds on the ground that it is fiscally stressed, and that paying RBI rates of interest to the Panchayats is cheaper than paying market rates of interest to banks for funds to bolster the State's ways and means position.

- The FoFC mandated that only duly elected Panchayats would be eligible to receive its recommended grants. At least in two States, during the currency of the FoFC reports, elections have been unconstitutionally delayed for considerable periods of time. However for this lapse, the LBs are denied funds and not the States concerned, which continue to receive their revenue shares. It would be more telling if adverse consequences were visited upon the States that violate constitutional mandates for the conduct of elections to LBs and not upon the blameless LBs.

The way forward

- The challenge for the FFC is to avoid the pit falls of earlier FCs and explore strategies of how to continue providing largely untied grants to LGs, whilst ensuring a modicum of expenditure responsibility and accountability. This has to be pursued without giving scope to Ministries and Departments to substitute their wills for that of the LGs. The FFC will need to address and counter the tendency for mission creep by concerned Ministries and Departments at the Union and State levels. It will need to closely examine the context in which conditionalities are imposed and whether they set out perverse incentives and are open to subversion.

- What the FFC could do in such circumstances is to mandate systems that ensure information symmetry to all players, so that everybody concerned can keep a watch on the other and ensure that stipulations intended for their benefit are not distorted to work against their interests. Such a system ought to be completely transparent to citizens, who are at the centre of all efforts to strengthen democratic decentralization. We suggest an innovative approach to counter these trends by investing in transparency and open access to data, through the setting up of a Transparency Portal, maintained and run by the Government of India, preferably in the Ministry of Finance, to ensure that all stakeholders have access to real time data regarding the allocation, release and expenditure of LB grants. The key design principles for such a system should be:

  - Complete transparency with respect to the total funds allocated and released to LBs at the Union and State level on the basis of the recommendations of the FCs.
  - Real time availability of data in the public domain as well, so that citizens have equal access to such data.

- Specifically, the Transparency Portal will enable

  - Monitoring state wise, LB wise, category wise release of grants;
  - Budgeting, planning and decision making based on the evaluation of all plans that may be mandated to be prepared by LGs to utilize FC grants;
  - Maintaining time-series information related to each implementing stakeholder from GOI to state agencies and LBs themselves;
  - Timely disbursal of funds;
  - Providing up-to-date and near real-time information on utilization of funds;
  - Monitoring of outcomes relevant to all stakeholders;

Chapter 1: Introduction

1.1. Objectives and terms of reference

The Terms of Reference (ToR) of the study are as follows:

i. What were the conditions imposed by the Centre in the release and utilization of the Fourteenth Finance Commission (FoFC) grants?

ii. To what extent have these conditions been adhered to and to ascertain whether fund flows are in compliance with the state objectives on timely release and untied nature of the grants;

iii. Are there state wise variations in the manner of release of funds to Gram Panchayats (GP)?

iv. What lessons can be learnt for the Fifteenth Finance Commission (FFC) from the cross-state analysis on the quantum and manner of devolution?

v. At the Union level, to study the orders issued by the Ministry of Finance (MoF) that operationalized the process and conditions for the release of Rural Local Body (RLB) grants to the States;

vi. Whether there are other orders issued by the State to modify the horizontal transfer formulae, say, based on the recommendations of the State Finance Commission (SFC);

vii. Whether the local body grants have been subsumed and used for substitution of state grants to GPs;

viii. Whether the purpose of the grant has been changed. This will include checking whether these funds have been converted into 'schemes' by the States and if the nature of the grant has changed from a general purpose one, to a conditionality based specific purpose one;

ix. Since the FoFC stipulation was that the local body grants should go only to village level RLBs, the policies of the state will be checked to find out if any part of the funds was directed to be used by other levels of the Panchayats (at district and intermediate levels).

1.2. However, in addition to the above ToRs, during discussions with the FFC, it was felt that for the sake of continuity, the fund flow during the last two years of the currency of the Thirteenth Finance Commission (TFC) report (i.e. 2013-14 and 2014-15) would also be studied[2]. This expansion of the ToRs has been communicated to the Centre for Policy Research (CPR) vide letter no. 7/52/SF/XVFC-2018 dated 6th November 2018 of the FFC.

[2] The CPR was the consultant to the FoFC as well and an analysis was undertaken of releases and expenditures of funds during the first three years of the TFC, in its report submitted to the FoFC.

1.3. Our study has been designed to be undertaken in two components. The first component is to examine policy decisions, operational processes and financial flows from the Union Ministry of Finance to the States and release by States to RLBs. The second component comprises of a sample study of 30 GPs across 30 districts and 8 states to study the quality of plans and expenditures of FC grants. While these studies are proposed as two separate components, they are complementary in nature.

1.4. This report addresses the actions forming Component 1 of the study. In this study, the results of our research into the policy decisions, operational processes and financial flows from the Union Ministry of Finance to the States on account of RLB grants recommended by the TFC and the FoFC (namely, the last two years of the TFC (i.e., 2013-14 and 2014-15) and the first three years of the FoFC period (i.e., 2015-16, 2016-17 and 2017-18) are presented. The research has focused on answering the following questions: -

a) What were the conditions imposed by the Centre in the release and utilisation of the 14th FC grants?

b) To what extent have these conditions been adhered to and to ascertain whether fund flows are in compliance with the state objectives on timely release and untied nature of the grants.

c) Are there state wise variations in the manner of release of funds to GPs and if so, what are these?

For the detailed deep dive in order obtain a representative sample of actions at the State level, we chose to study with the approval of the FFC, eight states with different degrees of devolution, resource raising capabilities and terrain, namely, Assam, Bihar, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Odisha and Rajasthan.

1.5. Funds recommended by the Union Finance Commissions to be transferred to the States to augment their finances in order to supplement the resources of the RLBs, passes through two stages. First, these funds are transferred from the Union Government to State Governments. From the States, they are then transferred to individual RLBs. These transfers are governed by stipulations and conditions that may be imposed by the Union Government, which in turn may or may not be based on the recommendations of the Union Finance Commission concerned. The FoFC) (Para 9.80) recommended to the Union Government that no more conditions may be imposed by either the Union or the State government, which go beyond those made by the FoFC[3].

1.5. For the purpose of articulating the findings of this study, the ToRs have been classified as follows:

I. ToRs (i) (ii) and (v), namely, the conditions imposed by the Centre in the release and utilization of FoFC grants and the extent to which these conditions have been adhered to **are addressed in Chapter 2 of this report.** This also includes a study of the orders issued by

[3] The TFC recommended that CFC funds need to be transferred to RLBs within 5 days of receipt of funds by the state in case of electronic transfers and within 10 days if banking infrastructure isn't adequate. (Para 10.161 (iv)), but did not lay down explicitly that no further restrictions or conditions should be imposed.

the MoF that operationalized the process and conditions for the release of RLB grants to the States

II. ToR (iii), namely, which is to ascertain whether fund flows are timely and in compliance with the objectives to keep the nature of the grants as untied, and whether there are state wise variations in the manner of release of funds to GPs, is analysed and addressed in **Chapter 3 of this report.**

III. ToRs (vi), (vii), (viii) and (ix) - whether there are other orders issued by the State to modify the horizontal transfer formulae, say, based on the recommendations of the State Finance Commission, whether the local body grants have been subsumed and used for substitution of state grants to GPs, whether the purpose of the grant has been changed, that is to say, whether these funds have been converted into 'schemes' by the States and if the nature of the grant has changed from a general purpose one, to a conditionality based specific purpose one and whether any part of the funds were directed to be used by other levels of the Panchayats (at district and intermediate levels) are **addressed in Chapter 4 of this report.**

IV. The issue of whether allocations and financial flows from the Union to the States, and thence from the States to the RLBs complied with the time stipulations prescribed, are **addressed in Chapter 5 of the report. However, the study of the flow of funds from the Union to the States and the issue of allocation orders by States, releasing funds to the Panchayats, only comprise the first part of following the money trail from the Union through the States to RLBs, the question of whether money reached the latter within stipulated time limits and how these have been spent since, will be examined in the sample study of Panchayats in our Component 2 Report.**

V. **Chapter 6 of this report** addresses ToR (IV), namely, what lessons can be learnt for the FFC from the cross-state analysis on the quantum and manner of devolution.

Chapter 2: Adherence to the recommendations of Finance Commissions by the Union Government

2.1. The first step in understanding the degree of compliance with the Fourteenth Finance Commission (FoFC) recommendations and analyzing the effects of these recommendations on Rural Local Body (RLB) finances, is studying the degree of compliance by the Union Government, specifically the Ministry of Finance (MoF) and the Ministry of Panchayati Raj (MoPR). In this chapter, we seek to analyze the degree to which the Union Government complied with the recommendations of the FoFC. The analysis presented in this chapter is based on a review of relevant guidelines, circulars, interviews and discussions with officers in both ministries. Our key finding through this analysis is that the imposition of the preparation of the Gram Panchayat Development Plan (GPDP) as a necessary condition for the receipt of FoFC funds has served to undermine the overarching objective of the FoFC recommendations. Importantly, it created an opportunity for mission creep as union government line ministries sought to leverage the GPDP process to impose their priorities and operational targets on the GPs.

Key Features of the Fourteenth Finance Commission Recommendations to LBs

2.2. The FoFC recommended that a total of Rs. 2,00,292.29 crore be given as grants-in-aid to GPs in all states covered under Part IX and IX-A. A further Rs. 87,143.80 crore was allocated as grants-in aid for ULBs. The grants were divided in to two categories namely, basic grant and performance grant. 90% of the grants to GPs (Rs.1,80,263 cr) was earmarked as BGs and 10% (Rs.20,029 cr) as PGs. In addition, the FoFC made a number of recommendations aimed at strengthening the fiscal capacities of local bodies. These included:

- Union Government to consider a larger, sustained and more effective direct intervention for administrative up-gradation and development of the areas covered under the proviso to Article 275(1) and excluded from the consideration of Finance Commissions in the ToR, in order to bring such areas on par with other areas.

- The Union and State Governments should examine in depth the issue of properly compensating LBs for the civic services provided by them to government properties and take necessary action, including enacting suitable legislation, in this regard.

- The ceiling of professional tax be raised from Rs. 2,500 to Rs. 12,000 per annum. Article 276(2) of the Constitution may be amended to increase limits on the imposition of profession tax by States. The amendment may also vest the power to impose limits on Parliament with the caveat that the limits should adhere to the Finance Commission's recommendations and the Union Government should prescribe a uniform limit for all States.

Ministry of Finance compliance with FoFC recommendations

2.3. Our analysis of guidelines and orders issues by the MoF with respect to the FoFC recommendations for RLBs indicated that the MoF has largely complied with the recommendations of the FoFC (See Table 1 for a comparative analysis of FoFC recommendations and MoF orders).

Table 1: Analysis of the MoF guidelines that operationalized the FoFC recommendations

FoFC Recommendations	MoF guidelines	Comments
• Basic grant (90%) and performance grant (10%) to duly constituted GPs.	• Basic grant (90%) and performance grant (10%) to duly constituted GPs. • While FFC has not distinguished between Operations & Management (O&M) and capital expenditure within 'basic services', MoF recommended that the cost of administrative and technical support towards O&M and capital expenditure should not exceed 10% of the allocation to a GP under any circumstance and expenditure can be incurred only by the LB concerned.	• Complies with the stipulation of 90% basic grant and 10 % performance grant. • Adds an advisory that the cost of administration and technical support for O&M and capital expenditure should not exceed 10 percent of the GP's allocation. Also expenditure to be incurred only by the GP concerned. This may be considered an acceptable safeguard to ensure that administrative cost to be incurred is not loaded onto the grant-in-aid that is meant for basic services provision.
• Basic grant for GPs fixed at Rs. 2, 00,292.20 crore, with state wise shares as stipulated.	• Basic grant fixed at Rs. 2,00,292.20 crore for GPs.	• Full compliance
• Basic grants for GPs to be distributed using formula prescribed by respective SFCs. In case SFC formula is not available, then GP share should be distributed across them using 2011 population (90 per cent weightage) and area (10 per cent weightage).	• Basic Grants to be distributed by using formulae prescribed by respective SFCs. In case the SFC formula is not available, then the share of each GP as specified above should be distributed across the entities using 2011 population with a weight of 90 per cent and area with a weight of 10 per cent.	• Full compliance
• Grants to go to GPs, which are directly responsible for the delivery of basic services, without any share for other levels.	• Funds to be used for planning and delivering of basic services smoothly and effectively within the functions assigned to the GPs by the State. Funds should be for supporting and strengthening delivery of basic primary services as improvement in services will lead to citizens being motivated to pay for the services. • All expenditure to be incurred only after preparation of proper plans by the GPs in accordance with rules and processes in the state. • No expenditure will be incurred except on basic services.	• The stipulation that GPs must prepare a plan in accordance with state prescribed rules and procedures supplements the recommendation that the GPs must spend money only on basic services. However, it has opened the window for further conditionalities on planning to be imposed, as described later in this report.
• Performance grant of Rs. 20,092.20 crore for GPs for	• The guidelines lay down key pre-requisites for grant release. These are:	• These additional stipulations are in accordance with the need for

2015-20, to address (a) making available reliable data on LB receipt and expenditure through audited accounts and (b) improvement in own revenues over the previous year. • Guidelines for performance grant disbursement to remain in force throughout award period. • Detailed procedure and operational criteria, including quantum of incentives for disbursal of performance grant to GPs to be decided by the State Govt. concerned subject to the following eligibility conditions: - Submission of audited accounts for a year not earlier than 2 years preceding the year in which the GP is seeking the Performance Grant - Increase in own revenues over the preceding year as reflected in audited accounts. • Union Govt. to accept detailed procedure prepared by States which incorporates FoFC guidelines without imposing any further conditions.	- Except for the first Basic grant installment in 2015-16, all successive grants to be released only after receipt of Utilization Certificate (UC) for previous installments. - States to notify schemes for disbursement (including quantum of incentive and operational criteria) of performance grant latest by March 2016 so as to prepare the eligibility list of local bodies entitled to these grants. - Performance grant for LBs to be released from 2016-17 in October (along with the 2nd installment of the basic grant) subject to receipt of the scheme for operationalizing the performance grants from States and after certification from Ministry of Panchayati Raj (MoPR)/Ministry of Urban Development (MoUD) that the scheme is as per the FC recommendations.	streamlining the procedure of the release. The stipulation that the MoPR and MoUD must certify the scheme sent by the States in compliance with the FoFC decentralizing the scrutiny power from the MoF to these ministries too, seems both logical and desirable. • However, as described in the following sections of this report, this has given elbow room to MoPR to modify conditions for States and Panchayats to draw funds. Therefore the recommendation that the Union government should accept the detailed procedure prepared by States without imposing any further conditions, has been violated in practice
• Books of accounts prepared by LBs to distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from FCs and grants for any agency functions assigned by Union and State Governments.	• Book of accounts prepared by LBs should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution & grants from the states, grants from the FC and grants from any agency functions assigned by the Union and State Govts.	• Full compliance

• TG&S arrangements by C&AG should be continued and the States should take action to facilitate LBs to compile accounts and have them audited in time.	• CAG will audit the release and transfer of Grant-in-Aid. CAG may also conduct the audit of expenditure in selected Panchayats and Municipalities in accordance with TG&S. • State government must continue with the arrangement of the TG&S of the C&AG and states should take action to facilitate LBs to compile accounts and have them audited in time.	• Additional stipulation that the CAG will audit the release and transfers of Grant-in-Aid.
• Stern action to be ensured if irregularities in the application of funds are noticed.	• FFC has adopted a trust based approach that the local bodies will discharge their statutory functions with all due care. However, stern action should be ensured if irregularities in the application of funds are noticed or pointed out for the prevention of which appropriate third party mechanism may be put in place by March 2017. • States may constitute a High Level Monitoring Committee (HLMC) under the Chief Secretary with Secretaries of Finance, Panchayati Raj, and Urban Development to monitor and carry out concurrent evaluation of the LBs receiving the grants to ensure that funds are utilized for the purpose recommended by the FFC and also to address issues highlighted by the FFC.	• Arrangements stipulated at the State level are to ensure that there is a monitoring and operational mechanism to ensure that ‘stern action’ as recommended by the FoFC is taken when irregularities in LB expenditure is found.

Ministry of Panchayati Raj compliance with FoFC recommendations

2.4. As highlighted, to substantially strengthen RLBs and ensure effective implementation, the FoFC recommendations required MoPR to undertake a set of specific actions aimed at realizing the true potential of its recommendations. Our analysis of the actions taken by the MoPR are based on the orders issued and discussions with MoPR officials. As highlighted in table 2, for the most part, MoPR has limited its actions to setting up working groups, undertaking studies and training programmes. The impact of these trainings in terms of action at the state level, remains unclear.

Table 2: Details of Action Taken by the MoPR on the recommendations of the FoFC

FoFC Recommendations	Actions Taken by the Committee Constituted in the MoPR
• Union and State Governments to examine the issue of properly compensating LBs for civic services provided by them to government properties and take necessary action, including enacting suitable legislation, in this regard.	• A Joint Working Group was constituted to draft guidelines drawing on experiences from Kerala and Tamil Nadu. • A study was commissioned for the development of benchmarks for service standards for services offered by GPs and determining compensation levels.

• States to empower local bodies to collect tax and non-tax receipts through necessary legislations and rules to bolster local bodies' own source revenues (OSR).	• A workshop was held in June 2015 where experts facilitated state teams to develop road maps for preparing Action Plans with targets for additional resource mobilization • A decision was taken to commission a study in Uttar Pradesh, Chhattisgarh, Maharashtra and Bihar to identify potential sources of revenue to GPs
• State government should not provide exemptions to any entity from the tax and non-tax levies in the jurisdiction of local bodies; if exemption is necessary, local bodies need to be compensated for the loss	NA
• States to review and amplify existing rules to facilitate the levy of property tax	• MoPR organized two National Workshops on OSR in 2017 with the objective of sharing state-specific experiences and finding out possible avenues for enhancing revenue generation at GP level.
• Vacant land tax, betterment tax and advertisement tax to be introduced in order to improve OSRs of the Panchayats	No specific directions issued, but these matters, are regularly reviewed by MoPR with State Panchayati Raj departments[4].
• States to consider sharing a part of the land conversion charges and income from mining royalties with local bodies.	
• States to assign productive local assets to Panchayats, to institute systems and rules so that PRIs can obtain best returns on leasing of common resources.	
• States to strengthen SFC, including timely constitution, proper administrative support and adequate resources for smooth functioning and timely placement of the SFC report before State legislature, with action taken notes.	

2.5. In addition, there were some key recommendations by the FoFC that required critical legal and policy changes made at the right levels. The details of these recommendations and the progress achieved based on MoPR data, suggests a mixed bag. One time assistance grant has been made to a few states that are excluded from the purview of Part IX of the Constitution. However, a long term plan is yet to be put in place. Moreover, recommendations related to changes in the Constitution to expand the regime for professional taxes are still to be implemented. The details are listed in Table 3:

Table 3: Details of Actions Taken by the MoF on the recommendations of the FoFC

Recommendations	Action taken by GOI/MoF/MoPR
The Union Government to consider a larger, sustained and more effective direct intervention for upgradation of administration and development of areas covered under the proviso to Article 275(1) and excluded from the consideration of FCs in the ToR, in order to bring such areas on par with other areas.	MoPR held the first co-ordination meeting on 23-11-2015. The MoF was requested to provide special grants to the States that are excluded from the purview of Part IX of the Constitution, on the basis of representations received by MoPR from such States. Niti Aayog also supported this recommendation. Based on this request MoF released a

[4] Discussions with MoPR officials

	one-time assistance of Rs. 1000 crore to Assam, Meghalaya, Mizoram and Tripura on 18-2-2016.
Article 276(2) of the Constitution to be amended to increase the limits on the imposition of professions tax by States. Ceiling of professional tax to be raised from Rs. 2,500 to Rs. 12,000 per annum. The amendment may also vest the power to impose limits on Parliament with the caveat that the limits should adhere to the Finance Commission's recommendations and the Union Government should prescribe a uniform limit for all States.	The MoF has sought the views of MoPR in this regard and MoPR has furnished the same. However, no such amendment has been made to the Constitution so far. This recommendation of the FoFC has not been acted upon.

The most important role played by the MoPR in the allocation and disbursal of FoFC grants in shaping the implementation of the GPDP. We discuss this below.

Gram Panchayat Development Plan (GPDP) guidelines

2.6. The FoFC recommendations did not stipulate the preparation of GP level plans as a condition for the release of Basic or Performance Grant to the GP. However, the MoF (as highlighted in table 1), in its operative guidelines to RLBs for the utilization of these grants, suggested that there must be a focus on information dissemination regarding the planning process and its benefits to citizens, so as to generate a campaign atmosphere. States were requested to adapt and contextualize the process listed in the framework as deemed relevant and come out with a concerted plan of action for environment generation for roll out of a Gram Panchayat Development Plan (GPDP).

2.7. Seizing the opportunity, MoPR issued model guidelines for decentralized planning at the GP level. The model guidelines were finalized following a series of meetings with states including a write-shop at the Kerala Institute of Local Administration (KILA), Thrissur in Kerala on Participatory Planning on GPDP and a similar workshop in Guwahati for the North Eastern Region. The Model Guidelines stressed the importance of GP level planning and laid down the steps to be taken by State Governments to operationalize GP level planning, framing of detailed guidelines, environment creation at appropriate levels, support systems, capacity building, accountability systems and timelines. The following are further the features of these guidelines:

- It linked the performance of basic functions by the GP, for which the FoFC funds were provided, with poverty reduction, human, social, economic and ecological development, public service delivery and good governance, all of which ought to be reflected in the final GPDP.

- It emphasized the need for convergence between different sectors during the planning process and provided for an empowered committee at the State level to ensure coordination between line departments and address concerns during the plan preparation process. Similar coordination committees were suggested to be formed at the district and block levels.

- It listed all possible sources of funds from which the GP receives funds which included the FoFC, the SFC, Own Sources of Revenue, MGNREGS, other CSSs and state schemes entrusted to the GPs, schemes for which GPs take decisions even if the fund is not transferred to them, voluntary contributions (cash, kind, labour) and CSR funds (if available to GPs) as constituting the resource envelope for GPDP planning. It mandated that the State ought to communicate in writing, preferably issuing Government order(s) giving GP wise details of financial resources available to the GP for planning.

- It stressed the need for a campaign mode approach towards local planning, through suitable environment creation.

- It detailed the requirements of trained and qualified human resources required to carry out various functions during the pre-planning, planning and post planning stages and the sources from where such resources can be drawn. It laid down the technological interventions required for capacity building and IT applications in budgeting and accounting.

- For implementation of a convergent GPDP plan, the guidelines emphasized the need to coordinate with departments, individuals and experts, SHGs and CBOs etc. It suggested that the line departments concerned may issue detailed and joint circulars explaining the necessity of working in tandem with the GP and coordination during the plan preparation and implementation process.

- Review, monitoring and evaluation was to start with the Gram Sabha, followed by the GP itself, the Intermediate Panchayat, District / District Panchayat and the State. Monitoring and Evaluation (M&E) by academic institutions, State and National level monitors, IT based monitoring etc. were also suggested.

- The guidelines also contained suggestions on other aspects of the GPDP preparation and implementation process such as incentivizing performance, capacity building, accountability systems and timelines.

- In the case of administrative and technical approval and implementation arrangements, the guidelines lays down the centrality of the GPs whereby it says that the works selected by the GP should be treated as final unless there are cost implications and beyond sanctioned limits in which case the GP should be urged to correct the estimate / project for consideration.

- Recognizing the special needs and privileges given to the Schedule V areas governed under PESA, MoPR issued a separate set of guidelines for PESA areas by making the Village and the Gram Sabha, the centre-stage of all prioritization and planning activities under the GPDP.

2.8. Following the issue of these orders, MoPR and MoF continued to issue advisories and orders (See Table 5) directed towards Union Ministries and State Governments, some directing GPs to make investments on specific areas such as drinking water supply, installing dustbins for cleanliness, public display of physical and financial details of works and construction of toilets in schools and anganwadis. These orders also touched upon the use of the PlanPlus software to monitor GPDP, GPDP in PESA areas and on utilization of FoFC funds for O&M and capital expenses.

Table 4: Advisories and Orders issued by the Ministry of Panchayati Raj

Advisory / Order No. & Date	Description

K-11022/31/2015-CB dt. 13.1.15	• Dissemination of information about the planning process and its benefits to citizens and the generation of a campaign atmosphere on the ground. • States requested to adapt and contextualize the process listed in the framework as deemed relevant and come out with a concerted plan of action for environment generation for roll out of GPDP.
MoF vide letter No. 13(32) FFC/FCD/2015-16 dated 8.10.2015	• Para 4 of the guidelines issued by the implementation of FFC recommendations, advise the GPs to prepare proper plans as per devolution of functions under the State law and applicable rules and procedures before the GPs incur any expenditure on basic services.
MoPR vide letter No. M-11015/249/2015-DPE dated 4.11.2015	• Model guidelines for decentralized planning at the GP level.
G-39011/4/2015-FD dt. 16.12.15	• Utilization of grants for meeting O&M and capital expenditure of Panchayats
N-18011/17/2015-FD dt. 18.03.16	• States may give suitable instructions to GPs to prioritize the following activities having an impact on the health of children and which can be undertaken utilizing FOFC grants. • Construction of toilets in schools and baby friendly toilets in anganwadis and provision of drinking water supply systems for these institutions as per prescribed norms; • Filling up of gaps in provision of toilets where the existing infrastructure falls short of the norms in this institution; • Rehabilitation of existing toilets and water supply systems in schools and anganwadis if they are in need of repairs. • Regular repairs of toilets and drinking water system in schools and anganwadis.
MoPR OM N-16016/1/2016-PESA dt. 07.04.16	• Supplementary guidelines for preparation of GPDP in Panchayats in PESA areas, which map the provisions of PESA relevant to GPDP and also emphasize on the notification of Village and Gram Sabha by the State for ease of planning by the Gram Sabhas in PESA villages.
N-19011(16)/3/2016 - e-Panchayat	• States to assign the responsibility of monitoring the progress of preparation of GPDPs using the modified Plan Plus (Ver.2.0) application to the concerned CEO – ZP / DC. • Develop a system for bi-monthly review of the progress of preparation of GPDPs with CEO-ZP/DC to ensure that record of all activities are available in the public domain for scrutiny. • MoPR Coordination committee to monitor utilization progress of FoFC grants.
N-11011(iii)/1/2016-FD dt. 20.06.16	• All State governments to advise GPs to publicly display on notice boards all physical and financial details on the works, activities utilizing the FoFC grants taken up by them along with timelines for completion.
N-11019/9/2016-FD dt.27.9.16	• GPs to be advised to undertake various activities related to providing safe drinking water to people (as per priority by GoI to safe drinking water in rural areas). • States to instruct GPs to accord priority to various activities relating to provision of safe drinking water.
F-11013/22/2015-FD dt. 28.11.16	• No additional conditions to be imposed while formulating schemes on Operational Criteria adopted for disbursal of performance grant to GPs other than the two prescribed by the FC. • States to decide detailed procedure including the cut off dates for completing the audit of accounts of GPs, annual percentage increase in OSR over previous year etc. • States to modify schemes on Operational criteria adopted for disbursal of Performance Grant to GPs under intimation to MoPR.
DO No. M-11011/12/2017-FD dt. 08.09.2017	• State governments to impress upon GPs to provide / install dustbins in every hamlet from FoFC funds on the occasion of ‘Swachhata Pakhwada’ to encourage people to participate in cleanliness campaign.

<table>
<tr>
<td>N-11011/4/2017-FD
dt. 29.9.17</td>
<td>Disbursal criteria for performance grant:
• MoPR to disburse performance grant from 2017-18 to 2019-20 only to GPs who mandatorily fulfill the following criteria –
o Submission of Audited Accounts that relate to year not earlier than 2 years preceding the year in which the GP seeks to claim the performance grant.
o Show increase in Own Source Revenues (OSR) over the preceding year as reflected in the audited accounts.
o Completion of GPDP of year of performance grant disbursal and upload on PlanPlus portal.
o Display of sector wise FoFC Expenditure in Dashboard/ Website URL of MoPR of previous year to performance grant claim.

• Evaluation of those GPs who have satisfied all the above four criteria will be carried out as per the scoring system below –
(i) Increase in OSR quantum: [0 to 10% - 5, 10 to 25% - 10, 25 - 50% - 15, >50% - 20]
(ii) % of OSR quantum generated w.r.t. FoFC Basic Grant amount of previous FY to the performance grant claim year as per audited accounts: [0-10% - 15, 10-20% - 20, 20-30% - 30, >30% - 40]
(iii) Open Defecation Free (ODF)[5] status of GP in the previous financial year to performance grant claim year: [YES - 30, NO - 0]
(iv) Immunization in GP in the previous financial year to performance grant claim year Full immunization (0-2 year age children): [YES – 10, NO -0]
Total: i+ii+iii+iv =

Performance grant distribution to GPs based on their score shall be made as per details below –
• Score up to 49 – 50% of allocation
• 50 up to 60 – 70% of allocation
• 61 up to 70 – 80% of allocation
• 71 and above – 100% of allocation.

Any undistributed amount after the above allocations including those ineligible GPs, will be redistributed only amongst GPs scoring 50 or above proportionately on the basis of weighted average of the score obtained by the GP w.r.t. overall weightage.</td>
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Analysis of the GPDP and its potential impact on the letter and spirit of the FoFC

2.9. While the intentions of the MoF and the MoPR were arguably to streamline and ensure effective use of FoFC funds, there is no escaping the fact that the body of advisories issued by them amount to a set of constraints and conditions that go significantly beyond the conditions imposed by the FoFC, which mandated that no further conditions will be imposed by the Union and State governments over and above those suggested by the FoFC. Effectively, these orders had the potential of becoming an intrusive and constraining force on the GP's independence to plan and spend funds devolved to them.

2.10. Importantly, these advisories were not well thought through. We found in our analysis that some of these advisories clearly contradicted each other. For example, in order No. F-11013/22/2015-FD dt. 28.11.16, the MoF reminds the states that while releasing Performance Grants to GPs, no

[5] Sustainability of ODF Status from next year will be criteria for GPs having become ODF in the year.

additional conditions ought to be imposed other than the two prescribed by the FoFC. On the other hand, the MoPR's order No. N-11011/4/2017-FD dt. 29.9.17 added additional prior conditions for the release of performance grants, such as the completion of GPDP and uploading of the same on Plan Plus portal and display of sector-wise expenditure on the dashboard.

Mission creep through the GPDP

2.11. While the MoPR emphasizes the centrality of the GPts in the GPDP guidelines and specifically states that the works selected by the GP should be treated as final unless the cost implications are beyond their sanctioned financial powers, the tone and tenor of the various advisories clearly drive GPs into a constraining framework of processes, in which higher level authorities and officers can change, put on hold or modify the GP level plans. Apart from violating the assurance that no further conditions will be imposed on the GPs other than those laid down by the FoFC, these advisories open the entire FoFC devolution to the risk of being captured by State entities, who then impose their preferences on GPs and seriously affect the latter's autonomy in planning within the overall flexibility given by the FoFC. Whether this has happened, and if so, the extent to which it has happened, will be studied when GP level expenditure analysis is undertaken through the Component 2 Study.

2.12. The MoPR's order N-11011/4/2017-FD dt. 29.9.17 laying down the criteria for disbursing performance grant from 2017-18 to 2019-20, may go beyond the letter and spirit of the recommendations of the FFC. The first two conditions are in line with the conditions of the FFC- the order states that performance grants will be released to only those GPs that mandatorily fulfill the criteria of the submission of audited accounts and increase in OSR over the preceding year. MoPR imposed two further conditions, namely, (a) completion of GPDP for the year of performance grant disbursal and upload on PlanPlus portal and (b) display of sector wise expenditure in Dashboard/ Website URL of MoPR of previous year to performance grant claim. Even these conditions may be acceptable because they are necessary to ensure transparency in the expenditures of FoFC grants by the Panchayats. However, the MoPR went ahead to create a scoring system for evaluating the Panchayat performance on four criteria. The first related to OSR quantum, the second to the attainment of ODF status of the GP and the third, to Immunization status. While these are laudable objectives in themselves, the FoFC did not envisage that they could be imposed by a Union Ministry as additional conditionalities. Besides, the FoFC left it to the State to determine the criteria that will apply for the disbursal of PGs and did not give any Union Ministry overarching authority to modify or super-impose its criteria on any State.

2.13. Even as the MoPR has issued these detailed advisories, they have overlooked important constitutional mandates on the consolidation of the draft district plan by the District Planning Committees (DPC). By creating various coordinating committees at the intermediate, district and state levels and ignoring the DPCs, the MoPR seems to have created a parallel system for GPDP planning. This is in contrast to the previous approach of the MoPR, in programmes such as the now discontinued Backward Regions Grant Fund (BRGF) that emphasized the constitutional role of the DPC in consolidating the draft district plan.

Chapter 3: Flow of funds from the Union Government to the States

In this chapter, we analyze the allocations and releases of the grants recommended by the FoFC. In addition, to offer a comparative perspective and trace the evolution of the grant system over an extended period, we also study the flow of grants under the TFC.

Allocation and Release of FoFC grants:

Basic Grants:

3.1 Following the issue of the orders making the sub-allocations of the grants-in-aid to the States as recommended by the FoFC, the flow of Basic Grants are described in Table 5. States have been arranged in decreasing order of the percentage of cumulative releases made to them. Overall, basic grant drawings for FoFC is 91 percent, which is a satisfactory level.

Cumulatively, 19 States have been able to draw 100 percent or nearly 100 percent of the amounts to which they were entitled. The states that show considerable backlog in drawing funds are Tamilnadu (79.9%), West Bengal (72.4%), Punjab and Arunachal Pradesh (both 42.5%), Goa, 25.1%, Jammu and Kashmir (24.7%) and Assam (12.5%). The total release in 2015-16 was over 98% of the allocation, which dipped to 89% in 2016-17 and rose marginally to 90.5% in 2017-18. All states received nearly their entire allocation for 2015-16. In 2016-17 and 2017-18, Goa, J&K and Assam did not receive any funds against their allocations. In 2017-18 Arunachal Pradesh and Punjab joined these states in not receiving even one installment of their allocation, ostensibly because of non-submission of UCs on time.

Table 5: FoFC allocation and releases of Basic Grant – 2015-16 to 2017-18 (as on 06.07.2018) (In Rs. Crore)

State	2015-16			2016-17			2017-18			Total		
	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age
Sikkim	16.03	16.04	100.0	22.20	22.20	100.0	25.65	25.65	100.0	63.88	63.89	100.02
Bihar	2269.2	2269.2	100.0	3142.1	3142.1	100.0	3630.4	3630.4	100.0	9041.7	9041.7	100.00
Chhattisgarh	566.18	566.18	100.0	783.98	783.98	100.0	905.81	905.81	100.0	2256.0	2256.0	100.00
Gujarat	932.25	932.25	100.0	1290.9	1290.9	100.0	1491.47	1491.47	100.0	3714.58	3714.58	100.00
Himachal Pradesh	195.39	195.39	100.0	270.56	270.56	100.0	312.60	312.60	100.0	778.55	778.55	100.00
Jharkhand	652.83	652.83	100.0	903.96	903.96	100.0	1044.45	1044.45	100.0	2601.24	2601.24	100.00
Manipur	22.25	22.25	100.0	30.80	30.80	100.0	35.59	35.59	100.0	88.64	88.64	100.00
Tripura	36.24	36.24	100.0	50.18	50.18	100.0	57.98	57.98	100.0	144.40	144.40	100.00
Haryana	419.28	419.28	100.0	580.57	580.57	100.0	670.80	670.80	100.0	1670.65	1670.65	100.00
Madhya Pradesh	1463.61	1463.61	100.0	2026.62	2026.62	100.0	2341.57	2341.57	100.0	5831.80	5831.80	100.00
Maharashtra	1623.32	1623.32	100.0	2247.77	2247.77	100.0	2597.10	2597.10	100.0	6468.19	6468.19	100.00
Odisha	955.52	955.52	100.0	1323.09	1323.09	100.0	1528.71	1528.71	100.0	3807.32	3807.32	100.00
Telangana	580.35	580.34	100.0	803.58	803.58	100.0	928.47	928.47	100.0	2312.40	2312.39	100.00
Kerala	433.76	433.76	100.0	600.62	600.61	100.0	693.96	693.96	100.0	1728.34	1728.33	100.00
Uttarakhand	203.26	203.26	100.0	281.45	281.45	100.0	325.19	325.19	100.0	809.90	809.90	100.00
Rajasthan	1472.00	1471.95	100.0	2038.17	2038.17	100.0	2354.92	2354.92	100.0	5865.09	5865.04	100.00
Uttar Pradesh	3862.60	3852.60	99.7	5348.45	5334.58	99.7	6179.65	6179.65	100.0	15390.70	15366.83	99.84
Andhra Pradesh	934.35	928.41	99.4	1293.75	1285.43	99.4	1494.81	1485.09	99.35	3722.91	3698.93	99.36
Karnataka	1002.85	972.36	97.0	1388.62	1368.20	98.5	1604.42	1580.18	98.49	3995.89	3920.74	98.12
Tamil Nadu	947.65	947.65	100.0	1312.19	1312.19	100.0	1516.12	758.06	50.00	3775.96	3017.90	79.92
West Bengal	1532.21	1470.86	96.0	2121.61	582.42	27.5	2451.33	2369.18	96.65	6105.15	4422.46	72.44
Punjab	441.70	441.70	100.0	611.61	305.81	50.0	706.66		0.00	1759.97	747.51	42.47
Arunachal Pradesh	88.52	88.52	100.0	122.58	61.29	50.00	141.62		0.00	352.72	149.81	42.47
Goa	14.44	14.44	100.0	20.00	0.00	0.00	23.10		0.00	57.54	14.44	25.10
Jammu & Kashmir	373.96	367.72	98.33	517.81	0.00	0.00	598.29		0.00	1490.06	367.72	24.68
Assam	584.80	292.40	50.00	809.76	0.00	0.00	935.60		0.00	2330.16	292.40	12.55
Total:	**21624.53**	**21218.06**	**98.12**	**29942.87**	**26646.38**	**88.99**	**34596.26**	**31316.82**	**90.52**	**86163.66**	**79181.26**	**91.90**

Release of Performance Grant recommended by the FoFC:

3.2 Two mandatory conditions were laid down by the FoFC, which GPs had to fulfill in order for them to be entitled to receive the PG. First, GPs have to submit audited accounts that relate to the year not earlier than two years preceding the year in which the GP seeks to claim the PG. Second, GPs have to show an increase in their revenues over the preceding year as reflected in the audited accounts. The overall release of the PG over two financial years 2016-2018 amounts to a mere 55% of the total allocation. The primary reason for this low release (as discussed below) is union government overreach. The details of the PG released in 2016-17 and 2017-18 are detailed in Table 6 below:

Table 6: FoFC allocation and releases of Performance Grant – 2015-16 to 2017-18 (as on 06.07.2018)

State	2016-17			2017-18			Cumulative		
	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age
Chhattisgarh	102.84	102.84	100.00	116.37	116.37	100.00	219.21	219.21	100.00
Gujarat	169.32	169.32	100.00	191.61	191.61	100.00	360.93	360.93	100.00
Haryana	76.15	76.15	100.00	86.18	86.18	100.00	162.33	162.33	100.00
Manipur	4.04	4.04	100.00	4.57	4.57	100.00	8.61	8.61	100.00
Rajasthan	267.35	267.35	100.00	302.55	302.55	100.00	569.90	569.90	100.00
Sikkim	2.91	2.91	100.00	3.30	3.30	100.00	6.21	6.21	100.00
Tripura	6.58	6.58	100.00	7.45	7.45	100.00	14.03	14.03	100.00
Andhra Pradesh	169.70	168.62	99.36	192.04	190.79	99.35	361.74	359.41	99.36
Karnataka	182.15	179.46	98.52	206.13	204.08	99.01	388.28	383.54	98.78
Telangana	105.41	105.41	100.00	119.28	0.00	0.00	224.69	105.41	46.91
Himachal Pradesh	35.49	35.49	100.00	40.16	0.00	0.00	75.65	35.49	46.91
Assam	106.22	106.22	100.00	120.20	0.00	0.00	226.42	106.22	46.91
Madhya Pradesh	265.84	265.84	100.00	300.83	0.00	0.00	566.67	265.84	46.91
Punjab	80.23	80.23	100.00	90.79	0.00	0.00	171.02	80.23	46.91
Uttarakhand	36.92	36.92	100.00	41.78	0.00	0.00	78.70	36.92	46.91
Jharkhand	118.57	118.57	100.00	134.18	0.00	0.00	252.75	118.57	46.91
Tamil Nadu	172.12	172.12	100.00	194.78	0.00	0.00	366.90	172.12	46.91
Odisha	173.55	173.55	100.00	196.40	0.00	0.00	369.95	173.55	46.91
Maharashtra	294.84	294.84	100.00	333.66	0.00	0.00	628.50	294.84	46.91
Kerala	78.78	78.78	100.00	89.16	0.00	0.00	167.94	78.78	46.91
Arunachal Pradesh	16.08	16.08	100.00	18.20	0.00	0.00	34.28	16.08	46.91
Goa	2.62	2.62	100.00	2.97	0.00	0.00	5.59	2.62	46.87
Uttar Pradesh	701.57	699.75	99.74	793.92	0.00	0.00	1495.49	699.75	46.79
Jammu & Kashmir	67.92	66.79	98.34	76.86	0.00	0.00	144.78	66.79	46.13
West Bengal	278.30	268.97	96.65	314.93	0.00	0.00	593.23	268.97	45.34
Bihar	412.15	0.00	0.00	466.41	0.00	0.00	878.56	0.00	0.00
Total	**3927.65**	**3499.45**	89.10	**4444.71**	**1106.90**	24.90	**8372.36**	**4606.35**	55.02

3.3 In 2016-17, all States except Bihar were able to draw nearly 100 percent of their PG allocations. Bihar did not qualify to receive its PG in 2016-17 as it did not fulfill the conditions that the own revenues of the GPs ought to show an increase over the previous year, as per the audited statement. Yet, the good performance of other States resulted in 89% of the PG allocations for 2016-17 being released to the States. In stark contrast, the percentage of release of PG in 2017-18 was just 25% of the allocation. 17 States, namely, Arunachal Pradesh, Assam, Bihar, Goa, Himachal Pradesh, J&K, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Tamil Nadu, Telangana, UP, Uttarakhand and West Bengal did not receive any PG in 2017-18.

3.4. This shortfall, at least in the case of some States, seems to be a direct result of MoPR's notification on standardization of the conditionalities for the release of PGs, issued on 29th Sep 2017. The notification mandated that States draft PG scheme guidelines (which contained conditionalities not imposed by the FoFC, such as immunization status, & ODF declaration) and declare a standardized evaluation of parameters on the basis of which PGs are to be drawn. Ten States (Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Maharashtra, Manipur, Sikkim, Tamilnadu, Tripura and West Bengal) responded with revised PG schemes that complied with MoPR guidelines, but they did not submit the standardized evaluation parameters, except for Tripura. Hence 2017-18 PGs were not initially released to these states other than Tripura. However, MoPR has since reconsidered their initial strict stand and recommended release of funds to Chhattisgarh, Jharkhand, Haryana, Manipur and Maharashtra, leaving only Himachal Pradesh, Sikkim, Tamilnadu & West Bengal. There were anomalies observed with respect to these State compliances with MoPR guidelines. Hence, they were asked to rectify their scheme guidelines[6].With respect to Uttar Pradesh, 2017-18 PGs were not released as the State did not report an increase in Panchayat OSR generation over the previous year. However, UP represented to MoPR that this misreporting was due to accounts not being appropriately maintained and they are initiating an exercise to rework OSR revenue collection and reflect the same in the accounts of the GPs. Therefore, the MoPR has reconsidered its stand with respect to Uttar Pradesh.

3.5. In the 7th meeting of the Empowered Committee held on 24-10-2018, MoPR also reconsidered its earlier strict stand taken in its PG Scheme guidelines of Sept 2017 and decided to confine itself to compliance with the initial FFC recommendations of submitting audited accounts and showing an increase in OSR. In furtherance of this decision, MoPR has recently modified (January 2019) its earlier directive of September 2017, stating that release of PGs for 2017-18 have been pending due to "implementation difficulties faced by some States to comply with all the additional conditions/evaluation criteria and the resultant situation of very less number of Gram Panchayats becoming eligible for PG for 2017-18." Therefore, it has reverted to the earlier PG scheme prescribed by the FoFC, with only two conditions, namely, submission of audited accounts and increase in OSRs, with a maximum cap of 5 times the basic grant allocation for GPs. States have been requested to modify their PG Schemes accordingly. However PGs are yet to be released to these states as a follow up of this relaxation of its strict guidelines by the MoPR. It is hoped that these funds will be released soon, as States comply with these evolving policies of the MoPR.

Allocation and Releases of TFC grants to RLBs:

[6] These decisions were taken in the 5th meeting of the Empowered Committee chaired by the Secretary MoPR held on 27-12-2017

3.6. The TFC's approach differed from the approach taken by the FoFC, inasmuch as the former recommended that a certain percentage of the total divisible pool of the previous year to the one for which the calculation was being made, would be converted to a grant under Article 275 and then given in the form of grants to the LBs. Based on this approach it calculated the grants that would flow to the LBs as detailed in Table 7 below:

Table 7: Grants recommended by TFC to be given to local bodies (Rs. Crore)

Aspect	2010-11	2011-12	2012-13	2013-14	2014-15	Total
% of divisible pool to be given as General and Special Areas Basic Grant	1.5	1.5	1.5	1.5	1.5	
General Performance Grants (%)	0.5	1	1	1	0.78	
Total % of divisible pool	**2**	**2.5**	**2.5**	**2.5**	**2.28**	
Projected Divisible Pool	636183	746179	880156	1038188	1224595	4525301
General Basic Grant	8022	9303	10873	12883	15253	56334
General Performance Grant	0	3181	7462	8802	10382	29827
Total General grant	**8022**	**12484**	**18335**	**21685**	**25635**	**86161**
Special Areas Basic Grant	160	160	160	160	160	800
Special Areas Performance Grant	0	80	160	160	160	560
Total Special Areas Grant	**160**	**240**	**320**	**320**	**320**	**1360**
Total basic grant	8182	9463	11033	13043	15413	57134
Total performance grant	0	3261	7622	8962	10542	30387
Aggregate grants to local bodies	**8182**	**12724**	**18655**	**22005**	**25955**	**87521**

3.4 Based on the inter-se national proportion of rural and urban populations, 73.18% of the above allocation, were recommended as grants to be given to Rural Local Bodies (Table 8)

Table 8: Grants recommended for RLBs, by the TFC (Rs. Crore)

Item	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Total basic grant for RLBs	5987.59	6925.02	8073.95	9544.87	11279.23	41810.66
Total performance grant for RLBs	0.00	2386.40	5577.78	6558.39	7714.64	22237.21
Aggregate grants to RLBs	5987.59	9311.42	13651.73	16103.26	18993.87	64047.87
% age of total basic grant to aggregate grant	100.0	74.4	59.1	59.3	59.4	65.3
% age of total performance grant to aggregate grant	0.0	25.6	40.9	40.7	40.6	34.7

3.5 Table 9 below gives details of the actual allocations of Basic and Performance grants made during the period of currency of the TFC's recommendations.

Table 9: Actual Allocations of Basic and Performance grants, by the TFC (Rs. Crore)

Item	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Actual allocation of basic grant	5799.31	7429.21	8359.04	9643.34	10540.29	41771.20

Actual allocation of performance grant		2534.70	5728.81	6585.00	7182.97	22031.48
Total	5799.31	9963.91	14087.85	16228.35	17723.26	63802.68
% age of total basic grant to aggregate grant	100.0	74.6	59.3	59.4	59.5	65.5
% age of total performance grant to aggregate grant	0.0	25.4	40.7	40.6	40.5	34.5

3.6 A comparison of Tables 8 and 9 show that there was not much variation between the amounts projected to be allocated by the TFC and the actual allocations made. Furthermore, the inter-se proportion of the Basic to the Performance grant, within the aggregate of grants, was maintained strictly as recommended by the TFC.

3.7 The above points being kept in mind, the allocation and releases of Basic Grants recommended by the TFC are analysed in Table 10 :

Table 10: TFC allocation and releases of Basic Grant – 2010-11 to 2014-15 (as on 31.03.2015) (Rs. Crore, rounded off to the nearest crore)

States	2010-11			2011-12			2012-13			2013-14			2014-15			Total		
	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age	Allocation	Release	% age	Allocation	Release	%age
Telangana	0	0		0	0		0	0		0	0		384	551	144	384	551	144
Rajasthan	362	386	107	464	460	99	522	522	100	602	602	100	658	658	100	2609	2629	101
Assam	145	73	51	186	165	89	209	302	144	241	241	100	264	264	100	1045	1045	100
Gujarat	215	217	101	275	272	99	309	147	48	357	519	145	390	390	100	1546	1546	100
Kerala	179	179	100	230	230	100	259	123	48	298	434	145	326	326	100	1292	1292	100
Haryana	100	101	101	128	127	99	144	144	100	166	166	100	182	182	100	720	720	100
Chhattisgarh	154	154	100	197	197	100	222	222	100	256	256	100	279	279	100	1107	1107	100
Himachal	51	51	100	66	66	100	74	35	48	85	124	145	93	93	100	369	369	100
Jharkhand	139	139	100	179	179	100	201	201	100	232	232	100	254	254	100	1005	1005	100
Maharashtra	506	506	100	648	648	100	729	729	100	841	841	100	919	919	100	3643	3643	100
Orissa	238	238	100	305	305	100	344	344	100	396	396	100	433	433	100	1717	1717	100
Punjab	104	104	100	133	0	0	149	133	89	172	149	87	188	360	192	746	746	100
Uttarakhand	54	54	100	70	70	100	78	39	50	90	130	143	99	99	100	392	392	100
Uttar Pradesh	900	911	101	1153	1142	99	1298	1298	100	1497	1497	100	1636	1636	100	6485	6485	100
Bihar	456	456	100	584	584	100	657	657	100	758	758	100	828	828	100	3282	3282	100
Karnataka	414	419	101	531	526	99	597	597	100	689	689	100	753	753	100	2984	2984	100
Tamil Nadu	284	287	101	363	360	99	409	409	100	472	472	100	516	516	100	2043	2043	100
Manipur	20	20	100	26	0	0	29	13	44	33	0	0	37	112	306	145	145	100
Sikkim	17	9	51	22	30	139	24	12	48	28	27	97	31	29	95	122	107	87
Madhya Pradesh	378	378	100	485	485	100	545	545	100	629	629	100	688	315	46	2726	2353	86
J& K	84	0	0	108	108	100	122	122	100	140	140	100	154	154	100	609	524	86
Andhra Pradesh	481	481	100	616	305	50	693	0	0	799	549	69	490	1193	244	3079	2527	82

Tripura	27	27	100	35	35	100	39	18	48	45	20	45	49	45	92	194	145	75
West Bengal	381	381	100	488	242	50	549	508	93	634	288	45	693	634	92	2746	2053	75
Mizoram	19	19	100	24	12	50	27	12	44	31	13	43	34	13	40	134	69	52
Meghalaya	29	29	100	37	37	100	41	0		48	21	43	52	21	40	207	107	52
Arunachal	25	25	100	32	16	50	36	0		42	16	39	46	36	79	182	94	52
Nagaland	28	14	51	36	14	39	40	0		47	0	0	51	18	35	202	46	23
Goa	8	4	51	11	4	39	12	0		14	0	0	15	0	0	60	8	14
Total	**5799**	**5665**	**98**	**7429**	**6616**	**89**	**8359**	**7131**	**85**	**9643**	**9209**	**96**	**10540**	**11111**	**105**	**41771**	**39732**	**95**

3.8 In overall terms, the releases of BGs during the TFC period were a healthy 95 percent of the allocations made to States. Telengana State, the formation of which impacted the releases of TFC grants only in the final year, 2014-15, received more than its allocation[7]. 17 more States received the full allocation for the period concerned. While Sikkim, Madhya Pradesh, Jammu and Kashmir and Andhra Pradesh received more than 80 percent of their allocations over the period, performance was average or poor in the case of Tripura, West Bengal (both 75%), Mizoram, Meghalaya and Arunachal Pradesh (52%), Nagaland (22%) and Goa (14%). While releases were nearly 98 % of the allocation in the first year, this fell to 89% in 2011-12 and further dropped to 85% in 2012-13. However the trend improved to 95% of the allocation being released in 2013-14 and to 105% in 2014-15 as the poor performers in the first two years caught up with drawing previous years' backlogs. There are some interesting features of the releases made to States in the first year of the operation of the TFC Award, namely, 2010-11, when States are to get their allocations without any requirement of submitting of UCs. Gujarat, Haryana, Karnataka, Mizoram, Rajasthan, Tamil Nadu and UP received funds more than their respective allocations. Assam, Goa and Nagaland received only around 50% of their allocations, which J&K did not receive any funds.

3.9 In 2011-12, 13 states received less than their respective allocations, with Arunachal Pradesh, Andhra Pradesh, Mizoram and West Bengal receiving around 50% of their respective allocations and Goa and Nagaland receiving 39 percent. Sikkim was the only state whose release was much more than its allocation. Manipur and Punjab did not receive any funds. In 2012-13, release data was not available for Andhra, Arunachal, Goa, Meghalaya and Nagaland while for Gujarat, Himachal Pradesh, Kerala, Manipur, Mizoram, Sikkim, Tripura and Uttarakhand, the releases were either half or less than half of the allocation. Assam's release was more than its allocation reversing the trend in the previous two FYs.

3.10 In 2013-14, data could not be obtained for Goa, Manipur and Nagaland. Andhra Pradesh, Arunachal Pradesh, Meghalaya, Mizoram, Punjab, Sikkim, Tripura and West Bengal saw releases lesser than allocation with Arunachal, Meghalaya, Mizoram, Tripura and West Bengal getting lesser than 50% of their allocations. On the other hand Gujarat, Himachal Pradesh, Kerala and Uttarakhand received more than their respective allocations in contrast to lower releases than allocation in the previous FY.

3.11 In 2014-15, the last financial year of the currency of the TFC recommendations, seven states, namely, MP, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and WB received funds lesser than their allocation. MP had been a consistent good performer till then. In contrast, Andhra Pradesh received more than double of its allocation. Telangana also received its first allocation after formation, an amount that exceeded the allocation by 43 percent (Rs. 170 crore).

Allocations and Release of Performance Grant recommended by the TFC:

3.12 The TFC laid down six conditions that states were to meet in order to qualify to receive PGs. These were as follows, in brief:

a. Budget/Finance/Accounts

[7] This is likely due to an incorrect representation of Telengana's share in the allocations carved out from the united allocation to undivided Andhra Pradesh.

- Supplement to budget documents for PRIs to be prepared.
- Adoption of Model Accounting System.
- Adoption of 8 database formats.

b. Audit System
   - TG&S to be assigned to CAG over audit of rural local bodies.
   - CAG / DLFA reports to be placed before the legislature.

c. Local Body Ombudsman or Lok Ayukta to be constituted

d. Electronic transfer of grants from the State to the RLBs to be ensured within 5-10 days of the receipt of funds from the Union government

e. Make legislation to specify the qualification of SFC members

f. Make rules and laws and executive orders enabling the collection of Property Tax by RLBs.

3.13 The TFC also laid down a methodology for the forfeiture of PGs that were not released to States and their pooling and reallocation to other States. The details of the allocations and releases, including the release of forfeited grants, is detailed in Table 11.

3.14 PGs were released from 2011-12 onwards, as the TFC recommended a period of a year to states to fulfill the nine eligibility conditions laid down for receiving the same.

3.15 Overall during the period from 11-12 to 14-15, the total drawing of PGs was 79% of the allocation. State performance also showed a great deal of skewedness in the manner of release of these funds. Apart from Telengana, a late entrant into the system, which drew PGs only in the last year (14-15), only 10 states came close to drawing 100 percent of their allocated share of PGs. These are Andhra Pradesh (99.8%), Rajasthan, Kerala, Haryana and Himachal Pradesh (98.4), Bihar, Maharashtra, Uttar Pradesh, Karnataka and Madhya Pradesh (97.6%). Chhattisgarh drew 84.6%, but all other states drew PGsts poorly. West Bengal, Jharkhand and Assam drew between 70 and 60 percent, Manipur, Tripura and Punjab just above 50 percent, Mizoram, Jammu & Kashmir, Gujarat, Tamil Nadu and Sikkim just over 20 percent, and Meghalaya, Uttarakhand, Orissa, Nagaland, Arunachal Pradesh and Goa a paltry 7 percent.

3.16 There were year wise fluctuations on drawing of funds as well. The total release in 2011-12 was 65.24% of the allocation and 50% in 2012-13. It rose to 122% of the allocation in 2013-14 as some States caught up with their backlogs and drew more funds than their yearly allocations. However, releases fell away to 67.8% of the allocation in 2014-15.

Table 11: Allocations and Releases of Performance Grants including forfeited of PRIs, as recommended by the TFC (2010 - 15) (in Rs. Crore)

States	2011-12			2012-13			2013-14			2014-15			Total		
	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age	Allocn	Release	% age
Telangana	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-	261.64	335.64	128.3	261.64	335.64	128.3
Andhra Pradesh	210.12	0.00	0.0	474.90	0.00	0.0	545.87	1019.41	186.7	333.80	542.14	162.4	1564.69	1561.55	99.8
Rajasthan	158.33	213.28	134.7	357.85	357.85	100.0	411.34	577.39	140.4	448.69	205.64	45.8	1376.21	1354.16	98.4
Kerala	78.39	66.36	84.6	177.17	127.78	72.1	203.64	274.65	134.9	222.14	201.48	90.7	681.34	670.27	98.4
Haryana	43.68	58.81	134.6	98.72	98.72	100.0	113.48	159.17	140.3	123.78	56.73	45.8	379.66	373.43	98.4
Himachal Pradesh	22.38	30.11	134.5	50.57	50.57	100.0	58.13	52.45	90.2	63.41	58.13	91.7	194.50	191.26	98.3
Bihar	199.17	168.69	84.7	450.16	324.66	72.1	517.43	770.84	149.0	564.42	426.47	75.6	1731.18	1690.65	97.7
Maharashtra	221.06	186.06	84.2	499.63	611.30	122.3	574.31	231.68	40.3	626.46	847.06	135.2	1921.46	1876.10	97.6
Uttar Pradesh	393.49	331.18	84.2	889.35	198.76	22.3	1022.27	2323.97	227.3	1115.10	485.51	43.5	3420.21	3339.42	97.6
Karnataka	181.09	243.87	134.7	409.29	204.64	50.0	470.46	864.81	183.8	513.18	223.44	43.5	1574.02	1536.76	97.6
Madhya Pradesh	165.40	140.02	84.7	373.83	269.61	72.1	429.70	574.99	133.8	468.72	418.93	89.4	1437.64	1403.55	97.6
Chhattisgarh	67.16	56.54	84.2	151.80	109.82	72.3	174.49	244.90	140.4	190.33	82.87	43.5	583.78	494.13	84.6
West Bengal	166.61	24.01	14.4	376.57	188.28	50.0	432.85	362.84	83.8	472.15	432.85	91.7	1448.17	1007.98	69.6
Jharkhand	60.96	8.81	14.4	137.79	137.79	100.0	158.38	143.22	90.4	172.76	75.22	43.5	529.89	365.04	68.9
Assam	63.42	53.37	84.2	143.35	175.38	122.3	164.77	46.55	28.3	179.73	78.25	43.5	551.27	353.55	64.1
Manipur	8.80	1.28	14.5	19.89	0.00	0.0	22.86	29.79	130.3	24.93	10.86	43.6	76.48	41.93	54.8
Tripura	11.78	1.72	14.6	26.62	12.69	47.7	30.60	26.42	86.4	33.37	15.30	45.8	102.37	56.12	54.8
Punjab	45.24	6.51	14.4	102.24	0.00	0.0	117.53	152.80	130.0	128.20	55.81	43.5	393.21	215.11	54.7
Mizoram	8.11	1.17	14.4	18.32	0.00	0.0	21.06	17.66	83.9	22.97	0.00	0.0	70.46	18.83	26.7
Jammu & Kashmir	36.92	5.34	14.5	83.46	0.00	0.0	95.93	17.33	18.1	104.64	45.56	43.5	320.94	68.22	21.3

Gujarat	93.80	13.52	14.4	212.00	0.00	0.0	243.69	43.91	18.0	265.82	115.74	43.5	815.31	173.17	21.2
Tamil Nadu	123.97	17.87	14.4	280.19	0.00	0.0	322.07	58.03	18.0	351.32	152.96	43.5	1077.55	228.87	21.2
Sikkim	7.41	1.06	14.3	16.75	0.00	0.0	19.26	3.44	17.9	21.01	9.15	43.6	64.43	13.65	21.2
Meghalaya	12.57	1.83	14.5	28.42	0.00	0.0	32.67	5.93	18.2	35.63	0.00	0.0	109.29	7.76	7.1
Uttarakhand	23.76	3.44	14.5	53.71	0.00	0.0	61.73	11.16	18.1	67.34	0.00	0.0	206.54	14.59	7.1
Orissa	104.16	15.02	14.4	235.41	0.00	0.0	270.60	48.78	18.0	295.17	0.00	0.0	905.34	63.80	7.0
Nagaland	12.26	1.75	14.3	27.71	0.00	0.0	31.86	5.70	17.9	34.75	0.00	0.0	106.58	7.45	7.0
Arunachal Pradesh	11.02	1.57	14.2	24.90	0.00	0.0	28.62	5.10	17.8	31.21	0.00	0.0	95.75	6.67	7.0
Goa	3.64	0.51	14.1	8.22	0.00	0.0	9.45	1.66	17.6	10.31	0.00	0.0	31.62	2.17	6.9
Total	**2534.70**	**1653.69**	65.2	**5728.81**	**2867.86**	50.1	**6585.00**	**8074.57**	122.6	**7182.97**	**4875.71**	67.9	**22031.48**	**17471.83**	79.3

3.17 The next question is whether the recommendations of the TFC with respect to the pooling and reallocation of performance grants forfeited by States that did not meet the conditions, were complied with, while reallocating the same to the States. The TFC's instructions on reallocation of forfeited PGs were as follows:

a. First, 50 percent of the aggregated forfeited PRI amount were to be divided amongst all states (both performing and non-performing) according to the horizontal share formula indicated.

b. Second, the remaining 50 per cent of the aggregated forfeited PRI performance grant was to be distributed only amongst States that have complied with the stipulated conditions for PRIs in the ratio of their entitlements as specified.

3.18 Analysis of the actual State wise allocations in Table 14 show that the inter-se proportion of the allocations between States does not differ from the original horizontal formula prescribed by the TFC. This is seen from Table 12 below:

Table 12: Allocations and Releases of Performance Grants including forfeited of PRIs, as recommended by the TFC (2010 - 15) (in Rs. Crore)

States	Horizontal share % age	2011-12 Calculated allocation	2011-12 Actual Allocation	2012-13 Calculated allocation	2012-13 Actual Allocation	2013-14 Calculated allocation	2013-14 Actual Allocation	2014-15 Calculated allocation	2014-15 Actual Allocation
Andhra Pradesh	8.29	210.13	210.12	474.92	474.90	545.90	545.87	595.47	333.80
Arunachal Pradesh	0.43	10.90	11.02	24.63	24.90	28.32	28.62	30.89	31.21
Assam	2.5	63.37	63.42	143.22	143.35	164.63	164.77	179.57	179.73
Bihar	7.86	199.23	199.17	450.28	450.16	517.58	517.43	564.58	564.42
Chhattisgarh	2.65	67.17	67.16	151.81	151.80	174.50	174.49	190.35	190.33
Goa	0.14	3.55	3.64	8.02	8.22	9.22	9.45	10.06	10.31
Gujarat	3.7	93.78	93.80	211.97	212.00	243.65	243.69	265.77	265.82
Haryana	1.72	43.60	43.68	98.54	98.72	113.26	113.48	123.55	123.78
Himachal Pradesh	0.88	22.31	22.38	50.41	50.57	57.95	58.13	63.21	63.41
Jammu & Kashmir	1.46	37.01	36.92	83.64	83.46	96.14	95.93	104.87	104.64
Jharkhand	2.41	61.09	60.96	138.06	137.79	158.70	158.38	173.11	172.76
Karnataka	7.14	180.98	181.09	409.04	409.29	470.17	470.46	512.86	513.18
Kerala	3.09	78.32	78.39	177.02	177.17	203.48	203.64	221.95	222.14
Madhya Pradesh	6.52	165.26	165.40	373.52	373.83	429.34	429.70	468.33	468.72
Maharashtra	8.72	221.03	221.06	499.55	499.63	574.21	574.31	626.36	626.46
Manipur	0.35	8.87	8.80	20.05	19.89	23.05	22.86	25.14	24.93

Meghalaya	0.5	12.67	12.57	28.64	28.42	32.93	32.67	35.91	35.63
Mizoram	0.32	8.11	8.11	18.33	18.32	21.07	21.06	22.99	22.97
Nagaland	0.48	12.17	12.26	27.50	27.71	31.61	31.86	34.48	34.75
Orissa	4.11	104.18	104.16	235.45	235.41	270.64	270.60	295.22	295.17
Punjab	1.78	45.12	45.24	101.97	102.24	117.21	117.53	127.86	128.20
Rajasthan	6.25	158.42	158.33	358.05	357.85	411.56	411.34	448.94	448.69
Sikkim	0.29	7.35	7.41	16.61	16.75	19.10	19.26	20.83	21.01
Tamil Nadu	4.89	123.95	123.97	280.14	280.19	322.01	322.07	351.25	351.32
Telengana		0.00	0.00	0.00	0.00	0.00	0.00	0.00	261.64
Tripura	0.47	11.91	11.78	26.93	26.62	30.95	30.60	33.76	33.37
Uttar Pradesh	15.52	393.39	393.49	889.11	889.35	1021.99	1022.27	1114.80	1115.10
Uttarakhand	0.94	23.83	23.76	53.85	53.71	61.90	61.73	67.52	67.34
West Bengal	6.57	166.53	166.61	376.38	376.57	432.63	432.85	471.92	472.15

3.19 Table 14 leads us to conclude that the Union Government was not constrained to invoke the instructions of the TFC for the pooling together of the forfeited grant and allocate them to States. That implies that there were no forfeited grants that could have been so reallocated, which in turn leads to the conclusion that all States met the conditionalities and were therefore given access to the respective performance grant allocations to which they were entitled. However, such a conclusion is not supported by the fact that in all years, a significant number of States received less funds than their allocations. For example, in 2011-12, 24 out of 28 states received less funds than their allocations. Similarly in 2012-13, release data was available only for 14 states, of which for 10 states, releases were lesser than allocations. In 2013-14, out of 28 states, 17 received less than their allocations and in 2014-15, 18 out of 22 States did not receive their full allocations. There were also some consistent bad performers. For instance, West Bengal and the North Eastern States of Mizoram, Nagaland and Sikkim, in which releases were consistently below the allocations. Having said that, some States studied (Himachal Pradesh) have also received forfeited performance grants, which indicates that a pooling and reallocation exercise was indeed undertaken. There needs to be a greater level of transparency to determine how the MoF arrived at the extent of forfeited grants available for pooling and reallocation. It seems that the inability of any State to pick up its annual grants does not seem to amount to 'forfeiture' – that state is arrived at only when a State is denied grants for non-adherence to the prescribed conditions.

Winners and Losers amongst the States, in drawing of TFC and FoFC funds:

3.20 There have been winners and losers amongst States, when it comes to drawing of grants recommended by the TFC and FoFC. A snapshot of the States that have fared the worst is in Table 13 below:

Table 13: Percentage of allocation drawn by States

States	**FoFC**	**TFC**

	Basic	Performance	Basic	Performance
Goa	25	47	14	7
Arunachal Pradesh	42	47	52	7
Jammu & Kashmir	25	46		21
Punjab	42	47		
Assam	13	47		
Tamil Nadu		47		21
Uttarakhand		47		7
Odisha		47		7
Mizoram	Not allocated grants by FoFC		52	27
Nagaland			23	7
Meghalaya			52	7

Goa and Arunachal Pradesh have consistently shown sluggish offtake of both Basic and Performance Grants during the FoFC and TFC periods. Jammu and Kashmir has shown satisfactory performance only for TFC basic grants, failing to draw adequate FoFC grants and TFC Performance Grants. Punjab and Assam have not drawn more than 50 percent of Basic and Performance Grants during the FoFC period. Tamilnadu, Uttarakhand and Odisha have not adequately drawn Performance Grants during both FC periods. Mizoram, Nagaland and Meghalaya were allocated grants by the TFC even though they do not come under the purview of Part IX of the Constitution. However, they drew only a low proportion of their allocated grants.

3.21. Table 14 shows the status of compliance with the conditions prescribed by the TFC as reported by the States, for the receipt of performance grants.

Table 14: Status of Compliance with conditions prescribed by the TFC

Conditionality		**States that complied**	**States that did not comply**
Budget / Finance / Accounts	**Supplement to budget documents for PRIs**	Andhra Pradesh, Assam Bihar Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Manipur, Mizoram, Punjab, Rajasthan, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Goa, Meghalaya, Nagaland, Odisha, Sikkim, Tamil Nadu, Uttarakhand.
	Adoption of Model Accounting System	Goa, Sikkim, Tamil Nadu, Uttarakhand, Andhra Pradesh, Assam Bihar Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Manipur, Mizoram, Punjab, Rajasthan, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Meghalaya, Nagaland, Odisha,
	Adoption of 8 database formats	Goa, Sikkim, Tamil Nadu, Uttarakhand, Andhra Pradesh, Assam Bihar Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Manipur, Mizoram, Punjab, Rajasthan, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Meghalaya, Nagaland, Odisha.
Audit System	**TG & S to CAG over audit of RLBs**	Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Mizoram, Punjab, Rajasthan, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Goa, Manipur, Meghalaya, Nagaland, Odisha, Tamil Nadu, Uttarakhand.

C&AG/DLFA reports to Legislature	Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Mizoram, Punjab, Rajasthan, Sikkim, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Goa, Manipur, Meghalaya, Nagaland, Odisha, Tamil Nadu, Uttarakhand.
Local Body Ombudsman or Lok Ayukta	Goa, Manipur, Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Mizoram, Punjab, Rajasthan, Sikkim, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Meghalaya, Nagaland, Odisha, Tamil Nadu (Ordinance issued), Uttarakhand.
Electronic Transfer of Grants - 5/10 days	Tamil Nadu, Uttarakhand, Goa, Manipur, Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Mizoram, Punjab, Rajasthan, Sikkim, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Meghalaya, Nagaland, Odisha.
Qualification of SFC members	Tamil Nadu, Uttarakhand, Goa, Manipur, Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Mizoram, Punjab, Rajasthan, Sikkim, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Meghalaya, Nagaland, Odisha.
Property tax	Tamil Nadu, Uttarakhand, Goa, Manipur, Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Mizoram, Punjab, Rajasthan, Sikkim, Telangana, Tripura, UP, WB.	Arunachal Pradesh, Meghalaya, Nagaland, Odisha.

3.20 It may be seen that save for Odisha, Tamilnadu and Uttarakhand, only north-eastern States with tiny allocations to start with, have reported non-compliance with the conditionalities prescribed by the TFC. Since their allocations were in any case very small, it is possible that the amounts forfeited by them may have been pooled and reallocated to other States.

3.21 Our examination of the releases of funds recommended to be allocated by the TFC, will not be complete without reference to a detailed published analysis of these releases[8]. The authors, who include a member of the TFC, analysed the releases and made the following observations:

The shortfall in the total basic grant summing across rural and urban basic peaked at 13.75% in 2011-12 and 2012-13. The rural shortfall peaked in the 10%-15% range, also for two of the five years. These were then made up in the last year, 2014-15, when there is a negative shortfall (releases exceeding allocations), reducing the shortfall across all five years to 6%.

The rural basic grant was fully received every year by 10 out of the 28 states. Five states managed to obtain both rural and urban grants in full for each of the five years, namely, Haryana, Rajasthan, Odisha, Karnataka and Tamil Nadu. For 18 States, receipts varied from year to year as a percentage of allocations. Of these, eight states received nothing in one or more years, and a further subset of five states were not compensated subsequently. That a few states managed to obtain their allocations in full every year, while the majority of states suffered shortfalls going up to 100% in some cases.

When it comes to the Performance Grant, the study observed thus:

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[8] Preserving the Incentive Properties of Statutory Grants - Indira Rajaraman, Manish Gupta, Economic and Political Weekly, February 27, 2016, Vol. L1 No. 9)

a. The performance grant was available for 2011–12 at the rate of 0.50% of the previous year's divisible pool, and 1% thereafter, up to 2014–15. There were nine conditionalities, all of which had to be met through self-certification for a state to qualify for the local performance grant, so structured that a state once qualified would remain qualified for all subsequent years. The conditionalities were necessitated by the basic character of the third tier in the Indian federation, which makes them subject to legislation at the level of the second tier, for taxation rights and expenditure responsibilities, and subject to the state as a pass-through agent for all fund flows from the centre. They were structured to reform the state framework governing local bodies towards improved local autonomy, functioning and accountability.

b. The unclaimed residual was also fully apportioned, so as to eliminate any perverse incentive for the disbursing government to withhold or delay recognition of qualification. States failing any of the nine conditionalities would forfeit their allocated grant. Half of the forfeited grant would be distributed among all states (including non-performing ones) as per their mandated shares while the remaining half would be distributed among complying states. If no state qualified there would be zero disbursement, so as to discourage collusion among states to not introduce the structural improvements that would qualify them for the full amount.

c. The administrative guidelines stipulated compliance reporting every year, failing which states would be deemed ineligible despite having received the grant in a previous year. For example, Uttar Pradesh received the rural performance grant in 2011-12 but not in 2012-13. Similarly, Mizoram received the rural grant in 2013-14 but not in 2014-15.

d. Six states did not qualify for the rural performance grant in any year. The number of qualifying states increased from 11 in 2011-12, the first year when the performance grants became payable to 22 in 2014-15, the final year of the grant. However, the terms of the TFC and the administrative guidelines issued by the Ministry of Finance whereby all states would receive a sum greater than zero as long as there was even a single qualifying state, were violated. The two years when nothing was disbursed to a large number of non-compliant states were 2012-13 (14 states), one of the two years when the central government was under acute fiscal stress, and 2014-15 (seven states).

e. The conditionalities not met by non-compliant states mainly relate to setting in place systems for improving accountability, namely, a system of independent local body ombudsmen or Lokayukta; a supplement to the budget documents providing details of transfers to all tiers of panchayati raj institutions; and an audit system for all local bodies.

3.22 The paper listed out several points that emerged from an examination of how a two-part flow actually functioned in practice.

a. First, the basic flow, even though unconditional, was not steady year to year. The yearly pattern of releases suggests that it was bent by fiscal stress at the centre in 2011-12 and 2012-13. The two years of peak shortfall in the releases of basic grants were years when the gross fiscal deficit (GFD) approached 6% (2011-12), or was brought down just below 5% by an almighty effort (2012-13). Procedural controls like utilisation certificates, attached to even unconditional grants, lend themselves to manipulation when there is fiscal stress at the point of origin. The shortfalls reached peaks of 15%. In the final year, 2014-15, these shortfalls were compensated so that the aggregate shortfall over the five years was reduced to 6%, but the underlying design of the TFC to ensure a stable and predictable external flow was lost. A consolidated shortfall of 6%, implying 94% disbursement of allocations, may not seem high enough to matter. Thus, clearly, the statutory sanctity of the transfer was bent to accommodate fiscal stress at the centre. Similarly, with respect to the aggregate performance grant, there was a cumulative shortfall of 25.33% of the total allocation across four years. The highest aggregate shortfalls ranging between 35% and 50% of allocations are observed in the stressed years 2011–12 and 2012–13, going up again in the last year, 2014–15. The near-zero aggregate shortfall in 2013–14 is an average of rural releases in excess of allocations, balanced by a very high urban shortfall of 50%. The reason for the jagged yearly pattern of releases arose both because of states moving out of the qualifying set, and failure to distribute the residual unclaimed amount in accordance with the provisions laid down by the TFC.

b. With respect to the last observation, the study pointed out that the imposition of an additional feature in the operating guidelines for the performance grants, requiring states to report compliance with conditionalities every year, shows that the structuring of the performance grant was either not understood or deliberately disregarded. The state wise releases of the performance grant show some states (two rural, six urban) qualifying in an earlier year of the period but not routinely qualifying in years following, as intended by the design of the conditionalities. Whether this was because of compliance reversals, or because of reporting failure, is not known.

c. Second, the study highlighted that aside from transactional delays, deferments and denials at the centre varying over time, there are also differences between states in their ability to navigate their way through procedural obstacles imposed at the centre. The data portray a federal environment where routine certification of utilisation is handled in an adversarial rather than a facilitative manner, where some states have proved to be more skilled than others in navigating their way through administrative obstacles posed at the disbursing end. It suggests that at state level, there are huge variations in the administrative capacity to meet with the transactional requirements at the disbursing end of even an unconditional basic grant, which calls for nothing more complicated than a certification of onward transmission to local governments.

d. Third, the study observed that six states did not qualify for the performance grant in any year. Information on which conditionalities were failed in non-qualifying states is patchy. For the two years for which information is available for the rural grant the study found that the conditionalities most usually not met were in respect of systems to improve accountability.

3.23 The study summed up its conclusions as follows:

a. The failure of the central government to ensure stability and predictability in the basic component of the two-part local body grant, and its inability to preserve the incentive structure of the performance grant as envisaged by the TFC has meant loss of a major opportunity to reform governance at local level.

b. Any serious disregard of the design as envisioned by Finance Commissions destroys the sanctity of statutory transfers, but in the absence of penalties there is in effect no corrective within the system for this.

c. Local tax effort, and the need to collect information on it and certify it on a yearly basis, goes back once again to the very granularity in conditions that led to delay and non-receipt of local grants prescribed by commissions prior to the TFC. The root of the fiscal problem at local level remains property tax collection failure. Two of the nine TFC platform conditionalities - mandating irreversible legislative empowerment to levy, and a state-wise property tax board to assist smaller municipalities in the task of data collection and assessment - were designed to remedy that failure, but it is not clear if states qualifying for the performance grant actually met these conditionalities.

d. The need of local governments for a steady and predictable flow of external grant assistance is at odds with the incomplete task begun by the TFC of ensuring a governance structure with audited reporting of fiscal accounts and gazette standards of local public service delivery. In the absence of these public accountability mechanisms, enhancement of grant assistance will only result in waste of public money.

3.26. The analysis contained in the study adds great value to any reflections on how Grant systems should be best designed. In the following Chapter 4, we examine the compliance with conditionalities that are applicable to States. In Chapter 5, we analyze the financial flows between the States and the Panchayats.

Chapter 4: Compliance at the State Level with the recommendations of the FoFC and TFC

4.1 This chapter traces the compliance of eight sample states, namely Assam, Bihar, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Odisha and Rajasthan with the conditionalities recommended by the FoFC and the TFC, particularly those that have a bearing on the release of performance grants. This analysis was done based on the orders issued by the respective state governments, followed by interviews with the Finance, RDPR department officials, as well as officials in the AG's office, DLFA and SFC members at the state level. The focus was on the processes and policies that were set in place or modified by the States, in order to align with the recommendations of the FoFC and the TFC, as also the additional conditions if any prescribed by the MoF and the MoPR. Our investigations reveal a mixed bag. While there has been a broad compliance with all conditions prescribed across both the FoFC and TFC conditionalities except in the case of the strengthening of the property tax and OSR systems of GPs, there have also been attempts to subsume grants into SFC grants, conversion into State schemes and steps to deduct amounts due from Panchayats at source, from FC grants. While not universal across States, they are significant deviations. These are described more fully in this chapter.

Compliance with the recommendations of the FoFC:

4.2 The team identified six primary recommendations of the FoFC against which the states' implementation processes were studied. They are as follows:

a. Whether State orders lay down a horizontal transfer formula for the distribution of FoFC grants;

b. Whether the local body grants have been subsumed and used for substitution of state grants to GPs;

c. Whether the nature of the grant has been changed from a general purpose one to a conditionality based specific purpose one; specifically whether these funds have been converted into 'schemes' by the States;

d. Whether funds are transferred only to the GPs or transferred to other RLBs as well;

e. Whether the State has reviewed, simplified and prepared a framework for levy and collection of various taxes;

4.3 Table 15 below presents an analysis of the extent of compliance of the eight sample states studied, with the above parameters.

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Table 15. Compliance of Sample states with the recommendations of the FoFC						
	Horizontal formula recommended by the State	**Subsuming of local body grants into the SFC grants**	**Conversion of FoFC grants into scheme**	**Transfer of funds to RLBs**	**Framework for levy and collection of taxes**	**Sharing of royalties from mining**
Assam	Yes. The horizontal share is determined based on a weightage of Population: 50%; Area: 25% and Per capita income :25%	No	No. Grants are being used as per the mandate of the FC.	Only to GPs	No information available from the state	No information available from the state
Bihar	Yes. Horizontal share weighted on population and area.	No	80% of the allocation under Basic Grant and 90% of the devolution by the SFC has been earmarked for Mukhya Mantri Nal-Jal and Nali-Gali Yojana thus converting it into a scheme.	Only to GPs and through them to Ward Sabhas.	The BPRAct does mentions taxation as one of the functions of the Panchayat. However in the absence of any rules/framework or rates of taxes, Panchayats are not able to collect taxes.	No royalty collected in Bihar.
Himachal Pradesh	No. Follows the FoFC formula, i.e., horizontal share based on a weightage of Population : 90% and Geographical Area: 10%	No	No. Grants are being used as per the mandate of the FC.	Only to GPs	GPs do collect property tax and there is a 1% increase in property tax collection.	Amount equal to the amount collected from GP area is provided to Panchayats.
Karnataka	Allocation of development grants to ZP, TP and GPs based on 90 % weightage to population and 10 % to Geographical area of the respective tier, within a minimum and maximum range as follows: ZP min Rs. 4 cr Max Rs. 8 cr TP min Rs. 2 cr Max Rs. 3 cr GP min Rs. 15 lakh Max Rs. 35 lakh	No	No, except for the Escrowing of 25% of the Basic grant towards electricity bills of the GPs, (since withdrawn) and the directives for GPDP which have the effect of channelizing funds towards specific purposes as directed by the GOI and GOK	Only to GPs	• In the case of property tax and entertainment tax, legislative changes were done through the Gram Swaraj Act, 199, in 2016; • The Panchayat Raj Act enables GPs to levy ‘Development Charges’ for land development	Details being ascertained

	Performance grants also recommended ZP - 25 lakhs TP - 15 lakhs GP - 10 lakhs					
Madhya Pradesh	No. Follows the FFC formulae.	The Basic Grant under FoFC and SFC grants are pooled together at the state level under the Panch Parmeshwar Yojana. Only the performance grant can be traced to the GP level.		Only to GPs	Amendment to the Act is under consideration for strategically empowering GPs to collect taxes. However some interim measures have been taken to boost revenue collection by GPs.	Royalty collected by the Mining Dept. and shared with the Panchayati Raj Dept.
Maharashtra	No. Follows the FoFC formulae	No SFC grants recommended for GPs. Only FoFC grants are being transferred to the GPs.	No. Grants are being used as per the mandate of the FC.	Only to GPs	Property tax is being collected at the GP level.	Mining has been halted in the entire State through a High Court order.
Odisha	Yes. Four slabs of population identified, grants are released accordingly to GPs of different slabs. Additionally 20% extra funds are provided under TSP to Schedule V GPs.	No	No. Grants are being used as per the mandate of the FC.	Only to GPs	No concrete framework exists in the state for collection of taxes at the GP level. The Panchayats do collect non-taxes in the form of fees like Building Plan approval fees, fees for granting permission for installation of telephone towers, hoarding fees.	Funds not transferred but the District Administration spends the amount collected from royalties at the GP level on various works.
Rajasthan	Yes, criteria based on Population (40%), geographical area (15%), child sex ratio (10%), S.C. Population (5%), S.T. Population (5%),	No	No. Grants are being used as per the mandate of the FC.	Only to GPs	GPs collects taxes as well as non-taxes. However the collection of non-taxes exceeds that of taxes. There is however no framework	Royalty is being shared with the Gram Panchayats.

	Infant Mortality Rate (5%), Girls' Education (5%), Decline in population growth (5%), Deprivation as per criteria 7 of 2011 SECC (10%)				for levy and collection of taxes.	

4.4 Of the sample states, Assam, Odisha and Rajasthan followed the horizontal share transfer based on their respective SFC recommendations. The other states, namely Himachal Pradesh, Karnataka, Madhya Pradesh and Maharashtra followed the FoFC formula for horizontal share of FoFC funds for GPs.

4.5 There was no subsuming of LB grants into SFC grants in all States except Madhya Pradesh. Separate accounts for FoFC and SFC are maintained at the GP level and funds are distributed to the GPs from different account heads. Madhya Pradesh has pooled the Basic Grants under FoFC and SFC grants (both meant to be untied for the GP) into a scheme and named it as the '*Panch Parmeshwar'* Yojana. GPs were instructed to open a single account under the 'Panch Parmeshwar' Yojana and the pooled funds of the SFC and FoFC were ordered to be transferred into this account. Hence it is not possible to determine the percentage of funds coming from FoFC and SFC at the GP level as the merging of allocations take place at the State level. However, in Madhya Pradesh, the Basic Grants of the FoFC and In Maharashtra, there has not been any devolution recommended by the SFC to GPs and thus, the FoFC funds are passed onto the GPs as such.

4.6 At least two instances of changing the nature of FoFC funds from being untied general purpose funds to specific purpose tied grants in some of the states by converting the funds into schemes. Bihar has diverted almost 80% of the FoFC funds for the *Mukhya Mantri Nal Jal* and *Naali-Gali* Yojana thus not leaving anything substantial for the GPs to plan and take up works accordingly. In Madhya Pradesh, the Panch Parameshwar Yojana pooled together the funds from the SFC and the FoFC. The funds under the Panch Parmeshwar Yojana was initially focused to meet the needs of C.C. roads, toilets and drains in the villages and the guidelines were later revised to include more works under the initiative. Only Performance Grants are being separately sent to GPs. Assam, Himachal Pradesh, Maharashtra, Odisha and Rajasthan respected the intent of the FoFC grants and did not convert it into any separate scheme.

4.7 All states have transferred the FoFC grants only to GPs and not diverted the funds to any other agency.

4.5. With respect to the recommendation for developing a framework for levy and collection of taxes, most of the states other than Karnataka have not taken substantial steps other than issuing general guidelines, to improve tax collection. In Karnataka, several steps were taken to strengthen the local tax regime. These include several amendments enacted to the relevant sections of the Karnataka Panchayat Raj law through the Gram Swaraj and Panchayat Raj (Amendment) Act 2016 to include new tax handles and streamline and strengthen tax administration, The new tax handles apart from tax on buildings and vacant land include tax on entertainment, vehicles, hoardings, pilgrim places buses and taxies stands, mobile towers, solar plants and wind mills. The Property tax system has been changed from ARV basis to Capital Value basis. GPs are already empowered to levy fees, rates for issuing the licenses, NOCs and such other statutory requirement certificates. The period between two tax revisions has been reduced to 2 years from 4 in the case of buildings and to once a year on other tax items. Detailed procedures have been prescribed and rules issued for recovery of tax arrears and issuance of attachment notices. GPs are empowered to levy taxes on industrial areas and negotiate with industries to levy a compounded amount in lieu of tax if the Industry has provided factory quarters and basic amenities to employees. They can also appoint an agency to undertake the task of collection of taxes on their behalf.

4.8 Madhya Pradesh has issued a few advisories that put in place coercive strategies for enhancing tax collection. For instance, aspiring candidates for Panchayat elections shall have no tax arrears if they wish to contest elections. Similarly, an NoC is to be issued by the GP concerned that Warehouses have paid taxes, before the latter can obtain bank loans. The Nal-Jal Samiti has been empowered to collect water tax.

4.9. Except for Bihar, GPs in the remaining states do collect taxes and non-taxes in varying amounts even though such information (except in the case of Karnataka) is not readily available in the public domain. One of the eight database registers prescribed under the PRIAsoft platform for Panchayat accounts pertains to demand collection and balance. However, random checks showed that these registers do not contain any records for many states, Karnataka being an exception. Bihar and MP are however preparing necessary legislations on empowering Panchayats to collect taxes and increase its own revenues.

4.10. FoFc had recommended that the District Mineral Fund Committee should ensure the sharing of the royalties accrued from mining, with the GPs where mining takes place. This has been implemented differently across the states. Himachal Pradesh and Rajasthan has ensured that the royalties are shared directly with the GP; in Madhya Pradesh, the money is being transferred to the Panchayati Raj Department, which uses those funds for paying salaries and basic infrastructure; in Odisha, the District Administration under the direction of the District Collector spends the money in the GP jurisdiction on essential services like drinking water, housing, health centres etc. Karnataka has not taken any action on this suggestion. There is however no central database at any of the State level to determine the quantum of funds (in terms of share of royalty) either shared with the concerned GPs directly or with any other agency / department that would be transferring it to the GP or taking up works in the GP area.

Distribution of PGs:

4.11. Table 16 assesses the conditionalities for the release and distribution of PGs in the sample states.

Table 16. Distribution of Performance Grants				
	Has the government detailed procedure for disbursal of the performance grant to Gram Panchayats based on revenue improvement	**What are the operational criteria for the issuing of performance grants, including the quantum of incentive to be given?**	**Has the State imposed any further conditions for the release of funds to the GPs?**	**Criteria adopted for the distribution of unutilized Performance Grants.**
Assam	Yes	Evaluation of Panchayats are as per the notification of scheme. The disbursement of fund is as per SFC formula and FFC guideline.	No information yet	No information yet
Bihar	No	No	No	Not applicable as the state was not entitled to receive Performance Grants
Himachal Pradesh	Yes	• Increase in quantum of OSR revenue (20%) • Achieving total sanitation (30%) • Completing the GPDP of the year and uploading it on Plan plus portal • Immunization status (10%) • Reports of accounts and audit of last two years by Gram Panchayat (40%)	No	It will be distributed to the only among GPs scoring 50 marks or above proportionately on the bases of the weighted average of the score obtained by the gram panchayats with respected overall weightage.
Karnataka	Yes	These operational criteria are in compliance with the MoPR's model guidelines of September 2017. These operational criteria are: Increase in OSR Quantum; % of OSR quantum generated with respect to the FFC basic grant of the previous financial year; ODF free status declaration; Full immunization declaration.	No	PG to be distributed to GPs based on their score as follows: Score — Eligible Quantum of PG Up to 49 — 50% of allocation 50 to 60 — 70% of allocation 61-70 — 80% of allocation

				71 and above — 100% of allocation Undistributed amount including those of ineligible GPs to be redistributed to GPs scoring 50 or above, proportionately on the basis of the weighted average of the score obtained by the GP with respect to the overall weightage
Madhya Pradesh	Yes	In 2016-17, the State followed the two conditions laid down by the FoFC as the operational criteria. In 2017-18, there were two[9] more criteria which were added. GPs which satisfied all the four criteria were evaluated and based on score (in four bands), they were eligible for differing percentage of allocation.	No	Since there were no unutilized Performance grant, the State did not prepared any such criteria.
Maharashtra	Yes. As per guidelines of the GoI	• Reports of accounts and audit of last two years by Gram Panchayat. • Increase in OSR quantum generated as compared to previous financial year. • Completing the GPDP of the year and uploading it on Plan plus portal. • Upload expenditure on previous year's performance grant under the FoFC on the central Panchayati Raj ministry website.	No	No
Odisha	Procedure has been accepted for both 2016-17 as well as 2017-18 by the Union Govt.	The operational criteria for PG in 2016-17: • Audits of GPs finances for 2012-13 & 2013-14 by the Accountant General and Local Fund Audit. • Categorisation of Panchayats based on level of Own Source Revenue collection.	Conditions were imposed by the state in 2016-17.	Since there were no unutilized Performance grant, the State did not prepared any such criteria.

[9] Completing the GPDP of the year and uploading it on Plan plus portal and Uploading expenditure on previous year's performance grant under the FoFC on the central Panchayati Raj ministry website.

		• Expenditure performance against total funds available (devolution from SFC, CFC basic grant, funds for Maintenance and Own Source Revenue of GPs) • ODF status of Panchayats • Number of girl students who appeared in class 10 exams • Innovation for development problems? • Contributions in cash/kind/labour towards development of the GP area during 2015-16 **B. Infrastructure and Services:** B.1 Tot. no. of HHs in Panchayat. (5) B.2 No. of HHs given water connection (5) B.3 No. of HHs form where user fee collected (5) B.4 Villages provided with LED light (5) B.5 Villages completed cremation project (5) B.6 Villages completed pisciculture tank (5) B.7 Villages completed Market complex (5) B.8 Villages completed Rural Haat (5) B.9 Villages completed Kalyan Mandap (5) B.10 Villages completed Bathing Ghat (5) B.11 Villages completed Play Ground (5) **Operational criteria for Performance grant in 2017-18:** • Submission of audited accounts • Increase in OSR over the preceding year • Uploading sector-wise expenditure performance of FoFC grant of previous year on MoPR dashboard **Evaluation parameters:** • Increase in OSR Quantum; % of OSR quantum generated with respect to the FFC basic grant of the previous financial year; ODF free status declaration; Full immunization declaration.		

<table>
<tr>
<td>Rajasthan</td>
<td>Yes.
Performance grant distribution to GPs based on their score shall be made.</td>
<td>
<table>
<tr><th>Score</th><th>Eligible Quantum of GP</th></tr>
<tr><td>Up to 49</td><td>50% of allocation</td></tr>
<tr><td>50 upto 60</td><td>70% of allocation</td></tr>
<tr><td>61 upto 70</td><td>80% of allocation</td></tr>
<tr><td>71 and above</td><td>100% of allocation</td></tr>
</table>
</td>
<td>NO</td>
<td>No such criteria exists</td>
</tr>
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4.12. PG can be released to GPs that comply with the following two conditions laid down by the FoFC:

a. Submission of audited accounts for a year not earlier than two years preceding the year in which the GPs seek to claim the Performance Grant.

b. Demonstrate an increase in their own revenues over the preceding year as reflected in the audited accounts.

The FFC also stated that no further conditions should be imposed by the Union or State Government on GPs. States were mandated to prepare a scheme for the distribution of Performance grants to the eligible GPs.

4.13. However our research and investigations in the State and the Union level showed that additional conditions were added by the MoPR in 2017-18. The Ministry then instructed States to adopt these additional criteria, which all sample States did, except Orissa. Bihar did not qualify to receive PGs as it did not fulfil the condition that GPs have to show an increase in their own revenues over that of the previous year. In the remaining states studied, the State Governments concerned laid down detailed procedures for disbursal of Performance grant to the GPs, which was accepted by the MoPR. Despite MoPR accepting the detailed procedure laid down by the states for disbursal of PGs only the PGss for 2016-17 were released to the states. The MoPR has retracted its additional conditions recently (2 January 2019) and it has once again emphasised that no further conditions are to be added by States, over and above those suggested by the FoFC.

4.14. Regarding the criteria adopted for distribution of unutilized PGs, except the one laid down by the MoF in its guidelines, most states have not developed any such criteria as there were no unspent PGs in any state.

Compliance of states with recommendations of the TFC:

4.15. We also examined compliance of States with the conditions suggested by the TFC. The details are in Table 17 below:

Table 17. Compliance of states with the recommendations of the TFC							
	Model Panchayat Accounting System	**8 digit database formats**	**Electronic transfer of grants**	**Collection of Property Tax**	**Timely constitution of SFCs**	**Functioning of SFCs**	**SFC report in Legislature and ATR**
Assam	Adopted by state but no clarity on whether it has been followed in letter and spirit.	3 digit database is currently being maintained.	Yes. However there has been considerable delays in release of funds to the LBs from the State.	No details available	Assam 5th SFC's period is currently running, from 2016-17 to 19-20. Therefore there is large synchronicity with the period of the FoFC		
Bihar	Adopted but not implemented. PRIAsoft was discontinued and the State has shifted to the e-Panchayat module.	Only 3 databases are currently being maintained.	Yes. However there were delays (ranging from 4-6 months) in releasing of PGs under 13th FC and BG under 14th FC. This led to interest paid by the State to the Panchayats.	No	Though Bihar had constituted SFCs in the past, they did not submit any reports. The current SFC is reported to be the 5th one and its report period is co-terminus with that of the FoFC	Yes. Adequate resources was made available to the SFC	Delays in submission of report by 10 months.
Himachal Pradesh	Adopted but not uniformly implemented across the state.	Not all registers are being maintained.	Yes	Yes. GP do collect property tax.	The period of the HP's last FC was from 2012-2017. However no ATR has been submitted with respect to the	Yes	Yes

					subsequent SFC, namely SFC-5		
Karnataka	Adopted and modified to Karnataka's requirement, and accounting done on the State's Panchatantra software	Adopted and incorporated into the State's Panchatantra software.	Yes	Yes. GP do collect property tax. State maintains up to date data on the Panchatantra software	There have been delays in the past. Karnataka's third SFC period ended in 2011. Then SFC 4 submitted it's recommendations only in 2018. The same has not been accepted yet. Therefore, the term of the report of the SFC is not co-terminus with the FoFC term.	Yes. Adequate resources were made available to the SFC	SFC was given an extension of 6 months to finish its report. After that, the ATR for implementation of the report was delayed due to elections to the State Assembly in 2018. The report has since been accepted
Madhya Pradesh	Adopted. However a test check of a sample of Panchayats during 2015-16 by the C&AG reveals that none of them were maintaining the accounts in MPAS formats.	Although adopted but not widely used.	Yes. However the audit of 2015-16 found that there was delay in release of 1st instalment of BG to Panchayats following which the State incurred an interest of Rs. 5.17 cr. but this was not released to the GPs	Not yet	Yes. Constitution of the last (4th) SFC was done in a way so as to be broadly co-terminus with the FFC. Its period is from 2016 to 2020	Yes	No. The submission of the interim report of the 4th SFC was delayed and the final report was submitted and accepted almost after 2.5 years of the expiry of the period of the 3rd SFC. Hence 3rd SFC recommendations were extended until then.

Maharashtra	Adopted	Adopted	Yes	Yes	The term of the 4th SFC ended in 2015-16 and no SFC has been constituted since then. The ATR for the 4th SFC has been submitted only in 2018	Yes. Adequate and qualified manpower and sufficient outlay to the Fifth SFC as per their requirement in 2018-19 i.e. Rs 181.09 lakh	Yes
Odisha	Adopted but not followed uniformly.	Adopted	Yes	No	Yes. SFC-4 constitution and award period is co-terminus with the award period of the CFC	There is no dearth of funds and other resources for the SFC to function efficiently and effectively.	The report and the ATR has been placed in the legislature well in time so as to ensure the periodicity of the grants in line with that of the Union FC award period.
Rajasthan	adopted	adopted	Yes. However there have been considerable delays in release of funds to the GPs from the State.	No	The period of the 4th SFC was from 2010-2015 The 5th SFC has submitted an interim 2016-17	Yes	Both report and ATR are laid on time.

4.18. Most states have adopted the Model Panchayat Accounting System (MPAS) as well as the eight digit database recommended by the C&AG. However the use of the system varied across the state and C&AG audit reports of LBs of some states revealed that not all the eight digit database registers are being maintained by the GP. While District and Block level Panchayats were more forthcoming in using the MPAS, Gram Panchayats in large numbers failed to maintain the registers and upload information onto the same. This was also cross checked and verified through a random check on the PRIAsoft portal wherein most of the registers were found with no records.

4.19. All states had put in place systems for the electronic transfer of funds. However, not all states have complied with the transfer of funds within the stipulated time frame of 5/10 days to GPs. This is more fully examined in Chapter 5.

4.20. Barring Himachal Pradesh, Karnataka and Maharashtra, none of the other states surveyed have reported the collection of property tax by RLBs. This issue will be examined in greater detail in the Component 2 report.

4.21. States continue to show varying performance in the appointment and acceptance of the reports of SFCs. The recommendation of the TFC to align the reports of SFCs with that of the Union FCs has been largely disregarded. In the sample States. Some States have not constituted SFC at regular intervals and have also delayed the acceptance of ATRs for considerable lengths of time (Maharashtra, Karnataka). Paradoxically, even as States show indifference to the constitution and recommendation of SFCs they also report that there is no dearth of resources provided to the SFC for its functioning.

Conclusions:

4.22. Our analysis of state reports indicated that there are discrepancies between what States claim in their reports to the Union Government, and what is the actual state on the ground, with respect to the compliance with conditionalities imposed by the FCs. The most widespread deviation is the reluctance, sluggishness or inability to set the rules and provide the right impetus to GPs to collect the taxes that have been assigned to them, in particular, land and house taxes. The TFC had stressed the need to establish a regime for the collection of property taxes and improve OSRs, and those States that drew performance grants seem to have done just enough to satisfy the conditionality, through removing bars to the collection of property taxes and introducing enabling provisions to fix and collect such taxes. The FoFC’s conditionality for PGsgoes much deeper, to look at incremental yearly increases in the volume of property taxes that have been collected by each GP, in order to receive its share of PGs. MoPR’s model guidelines set out a graded, points based system that rewards GPs that show a higher increase with a greater share of performance grants points. At first sight, States that have complied with these instructions, with a few exceptions such as Karnataka, have since done little to facilitate GPs to improve their tax collections. This will be further verified during field visits and the Component 2 report will address this in greater detail. The drawal of PGs is sluggish as analysed in Chapter 3. It remains to be seen whether the performance of States and GPs, particularly on improving the volumes of property taxes collected, will be better in the remaining year of the FoFC period.

4.23. The other feature of note is that the MoPR's overreach in issuing additional conditions for the drawing of FoFC grants (described in Chapter 3) has met with little resistance from States. All States other than Orissa have complied with these additional conditionalities, without much protest. However, MoPR itself has seen it fit to withdraw such conditionalities, which were not suggested by the FoFC.

4.24. Some of the recommendations that have been more in the nature of advisories, have been ignored by a few States. These include the recommendations to share mining revenues with LGs.

In the next chapter, we examine the flow of funds within the State after they were received from the Union government.

Chapter 5: Flow of funds during TFC and FoFC periods from the States to the LBs.

5.1. To ensure that Union government funds allocated to RLBs reach RLBs in a timely and predictable manner, in 2004, following the acceptance of the Twelfth FC recommendations, MOF issued an operative order mandating States to transfer the grants released by the Centre to the PRIs and ULBs within 15 days of the same being credited to the States' account. This stipulation was further strengthened by the guidelines issued by the MoF following the receipt of the reports of the TFC and the FoFC, which further mandated that the State will need to pay interest at the prevailing RBI rate to the Panchayats, as also that the streamlined flow of finances to the Panchayats would be monitored by the AGs of the respective States concerned.

5.2. To understand the extent to which states have complied with these recommendations, this study attempted to trace the flow of funds from States to the Panchayats in two stages. In this chapter, the focus is on the actions taken by the States to release funds to the Panchayats, following the release of these funds to the States by the Union Government. The Component 2 Study will follow the trace actual receipts at the Gram Panchayat level. This two-step approach is to ensure that the scrutiny of streamlined flow ought not to confine itself with noting the dates of the issue of GOs, but also to ensure that the funds are physically deposited in the bank or treasury accounts of the Panchayats concerned. Given the scale and complexity of the exercise, the sample was limited to 8 states, namely, Assam, Bihar, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Odisha and Rajasthan.

5.3. To ascertain the movement of funds at the State government level, data was collected from relevant authorities in the State and Union Governments through visits, discussions and searches online on MIS systems. The broad finding was that for both the TFC and FoFC funds, state governments have complied with the requirement of transfer of funds within the 15 day period. However, it is important to note that most states do not collect and compile this data, especially for transfers undertaken during the TFC, in an organized and regular fashion and there is no one-stop shop Management Information System for ascertaining this data. Our state level data collection exercise required multiple visits for PRI departments and many follow-ups. Despite this, there are data gaps of varying gravity regarding the dates of receipt, credit and reallocation of grants from the Union Government, at the State level.

Release of FC Funds:

5.4. The data pertaining to the sample States are presented below in Tables 18 to 25:

Table 18: Release of Grants for Assam State

Sl no	Year	Type of Grant	Instalment	Union government level		State Govt. level		Comments
				Date of release order	Amount released by Union Govt (Rs. Cr)	Dt. of receipt at state level	Date of State release order	
1	2013-14	General Basic	First		101.93	03.10.13	05.11.13	**One month's delay between credit confirmation and release order**
2			Second		100.00	21.02.14	18.06.14 20.06.14	**Four months' delay between credit confirmation and release order**
3		Special Basic	First		3.40			**Details unavailable as to when these amounts were released**
4			Second		3.40			
5		General Performance			46.55	31.03.14	16.09.14	**5 months and 16 days delay between credit confirmation and release order**
6		Special Performance			8.99	31.03.14	16.09.14	
7		Interest paid						Rs. 2.19 crore paid as interest for delayed payment by 160 days.
8		Forfeited amount			40.00	31.03.14	16.09.14	**5 months and 16 days delay between credit confirmation and release order**
9		Forfeited amount (6th Schedule)			15.54			**Details unavailable as to when this amount was released**
10	2014-15	General Basic	First		120.63	17.10.14	15.12.14	**Two months' delay between credit confirmation and release order**
11			Second		143.11			**Details unavailable as to when this amount was released**
12		Special Basic			3.65	17.10.14	23.12.14	**Two months' delay between credit confirmation and release order**
13		Interest paid						Rs. 1.73 crore paid as interest for delayed payment for 49 and 57 days respectively
14		General and Special Peformance grants			Not received			

15	2015-16	Basic	First	18.8.15	292.4	08.10.15	12.02.16	**Delay of 51 days between sanction order by GOI and the credit confirmation in the State Account. Delay of 4 months and 4 days between credit of funds in the State Account and issue of orders releasing funds to the Panchayats.**
16							25.11.16	Penal interest of Rs. 10.28 crores paid
17			Second	19.06.17	292.4	19.06.17	04.07.17	**15 days delay between credit confirmation and release order**
18	2016-17	Basic	First	14.08.17	404.88	14.08.17	23.02.18	**6 months and 9 days delay between credit confirmation and release order**
19							18.09.18	Penal interest of Rs. 12.34 crores paid
20			Second					No details of release by GOI
21		Performance		31.3.17	106.22	31.3.17	24.01.18	**9 months and 24 days delay between credit confirmation and release order**
22							28.09.18	Penal interest of Rs. 5.22 crores paid
23	2017-18	Basic	First	No releases made				
24			Second					
25		Performance						

Table 19: Release of Grants for Bihar State

Sl no	Year	Type of Grant	Instalment	Union government level		State government level		Comments
				Date of release order	Amount released by Union Govt. (Rs. Cr)	Dt. of receipt at state level	Date of State release order	
1	2013-14	Basic Grant	First	15.07.13	387.07		1.07.13	Money released in advance of GoI receipt by state Govt
2			Second	21.02.14	370.68		25.02.14	No delay

3		Performance grant	First	31.03.14	467.55		04.04.14	No delay
4			Second	06.06.14	258.72		10.06.14	No delay
5	2014-15	Basic Grant	First	31.07.14	378.82		16.07.14	Money released in advance from state govt
6			Second	10.03.15	449.41		12.03.15	Money released in advance by state govt.in first instalment was adjusted in the 2nd Installment.
7		Performance grant	First	31.03.15	167.75		06.04.15	No delay
9	2015-16	Basic Grant	First		1134.59		17.07.15	
10						10.03.16	16.03.16	Rs. 8.12 crore given as interest amount in the 1st installment of Fy15-16 release
11			Second	23.03.16	1134.59	31.03.16	31.03.16	No delay
12	2016-17	Basic Grant	First	21.12.16	1571.04	22.12.16	28.12.16	No delay
13			Second	9.3.17	1571.04	9.3.17	20.3.17	Delay of 11 days between credit confirmation and date of release order
14		Performance grant						
15	2017-18	Basic Grant	First	21.6.17	1815.12		04.07.17	Delay of 14 days between credit confirmation and date of release order
16			Second	24.11.17	1815.12		01.12.17	No delay
17		Performance grant						

Table 20: Release of Grants for Himachal Pradesh State

Sl no	Year	Type of Grant	Instalment	Union government level		State government level		Comments
				Date of release order	Amount released by Union Govt (Rs. Cr)	Dt. of receipt at state level	Date of State release order	
1	2013-14	General Basic Grant	First	16.08.13	43.49	19.08.13	22.08.13	No delay
2			Second	20.02.14	41.64	21.02.14	06.03.14	**Delay of 13 days between credit confirmation and date of release order**
3		General Performance Grant		29.03.14	23.38	30.03.14	31.03.14	No delay
4		Special Area Basic Grant	First	16.08.13	0.15	19.08.13	22.08.13	
5			Second	21.02.14	0.15	21.02.14	06.03.14	
6		Special Area Performance Grant	First	29.03.14	0.15	30.03.14	31.03.14	
7			Second	22.07.14	0.15	23.07.14	11.08.14	**Delay of 18 days between credit confirmation and date of release order**
8		Basic Forfeited amount of 12-13		31.03.14	17.43	04.04.14	06.04.14	No delay
9				31.03.14	0.39	04.04.14	06.04.14	
10				31.03.14	0.05	04.04.14	06.04.14	
11		PG forfeited for 12-13		31.03.14	4.81	04.04.14	06.04.14	
12		Special area PG for 12-13		31.03.14	0.05	04.04.14	06.04.14	
13				31.03.14	0.05	04.04.14	06.04.14	
14				31.03.14	0.04	04.04.14	07.04.14	
15				31.03.14	0.08	04.04.14	07.04.14	
16				31.03.14	0.05	04.04.14	07.04.14	
17	2014-15	General Basic Grant	First	09.09.14	42.55	12.09.14	12.09.14	
18			Second	26.02.15	50.49	27.02.15	02.03.15	
19			First	09.09.14	0.15	12.09.14	12.09.14	

20		Special Area Basic Grant	Second	26.02.15	0.15	27.02.15	02.03.15	No delay
21		General Performance Grant		07.11.14	29.06	11.11.14	13.11.14	
22		Special Area Performance Grant		07.11.14	0.15	11.11.14	13.11.14	
23	2015-16	Basic	First	27.8.15	97.70	27.8.15	21.9.15	**Delay of 25 days between credit confirmation and date of release order**
24			Second	08.01.16	97.69	08.01.16	14.1.16	No delay
25	2016-17	Basic	First	15.06.16	135.28	17.06.16	29.06.16	**Delay of 12 days between credit confirmation and date of release order**
26			Second	09.11.16	135.28	10.11.16	15.11.16	No delay
27		Performance						
28	2017-18	Basic	First	19.06.17	156.3	20.06.17	23.06.17	No delay
29			Second	10.10.17	156.3	11.10.17	13.10.17	No delay
30		Performance						

Table 21: Release of Grants for Karnataka State

Sl no	Year	Type of grant	Instalment	Union government level		State government level		Comments
				Date of release order	Amount released by Union Govt (Rs. Cr)	Dt. of receipt.at state level	Date of State release order	
1	2013-14	Basic	First	16.07.13	351.94	18.07.13	19.07.13	No delay
2			Second	Data unavailable				
3	2013-14	Performance	First	22-07-13	240.20	10-12-13	26-12-13	**15 days delay between credit confirmation and issue of State release order**
4			Second	29-03-14	419.96	02-04-14	03-04-14	No delays

5	2014 -15	Basic	First	15-07-14	344.43	25-07-14	04-08-14	**10 days delay between credit confirmation and issue of State release order**
6			Second	25-03-15	408.62	26-03-15	27-03-15	No delays
7		Performance	First	31-03-14	542.78	17-04-15	27-04-15	**10 days delay between credit confirmation and issue of State release order**
8			Second	Not released				
9	2015 -16	Basic	First	29-07-15	501.43	05-08-15	19-08-15	Fresh delimitation was done for GPs and the no of Panchayats were increased. Rs. 473.06 crore was released to 5558 GPs
10							06-10-15	Rs. 21.27 crore was released to 449 newly constituted GPs
11							29-02-16	Rs. 7.09 crore was additionally released to 449 newly constituted GPs
12			Second	31-03-16	Details awaited		31-03-16	No delays
13	2016 -17	Basic	First	21-07-16	684.16	26-07-16	29-07-16	No delays
14			Second	08-10-16	684.04	10.11.16	15.11.16	No delays
15		Perf		11-01-17	179.46	24-01-17	24-01-17	No delays
16	2017 -18	Basic	First	21.06.17	790.22	23.06.17	23-06-17	Rs. 765.64 crore was given to existing GPs
17							Funds surrender ed to UD	Of the new GPs constituted in 15-16, 57 were upgraded to Town Panchayats. As they did not receive the ULB grants, Rs. 24.58 crore being the backlog of funds due to them was transferred to UD Accounts head and released to them
18			Second	23-10-17	789.96	24-10-17	28-10-17	No delays
19		Performance grant		11-06-18	204.08	18-06-18	23-06-18	GOI did not release PG installment in time due to Assembly elections
20		Basic	First	06-09-18	920.77	07-09-18	14-09-18	No delays

21	2018 -19		Second	09-01-19	920.77	11-01-19	19-01-19	Vide order RDP10 GPS 2015 dated 10-3-2015, the GoK directed that 25% of FFC basic grants will be ESCROWED at source to pay electricity bill arrears of GPs. This came up for adverse criticism from MoPR and AG Karnataka (nothing in writing from MoPR though). So this order was withdrawn by GOK, WEF from this installment
22		Performance grant		Not released				

Table 22: Release of Grants for Madhya Pradesh State

Sl no	Year	Type of grant	Instalment	Union government level		State government level		Comments
				Date of release order	**Amount released by Union Govt (Rs. Cr)**	**Dt. of receipt.at state level**	**Date of State release order**	
1	2013-14	Gen Basic	First					Data not provided by the State. Enquiries are still on.
2			Second					
3		Spl Basic	First					
4			Second					
5		Gen Performance	First					
6			Second					
7		Spl Performance	First					
8			Second					
9	2014-15	Gen Basic	First					
10			Second					
11		Spl Basic	First					
12			Second					

13		Gen Performance	First					
14			Second					
15		Spl Performance	First					
16			Second					
17	2015-16	Basic grant	First	13.7.15	731.81	13.7.15	14.9.15	**Delay of 2 months and 1 day between credit confirmation and date of release order**
18			Second	18.2.16	731.81	18.2.16	3.3.16	**Delay of 13 days between credit confirmation and date of release order**
19	2016-17	Basic grant	First	16.9.16	1013.31	16.9.16	29.9.16	**Delay of 13 days between credit confirmation and date of release order**
20			Second	9.12.16	1013.31	9.12.16	21.12.16	**Delay of 12 days between credit confirmation and date of release order**
21		Performance						
22	2017-18	Basic grant	First	19.6.17	1170.78			
23			Second	10.10.17	1170.78			
24		Performance grant						

Table 23 : Release of Grants for Maharashtra State

Sl no	Year	Type of Grant	Instalment	Union government level		State government level		Comments
				Date and no. of release order	Amount released by Union Govt (Rs. Cr)	Dt. of receipt.at state level	Date of State release order	
1	2013-14	General Basic Grant	First	16-09-13	429.62	16-09-13	20-09-13	No delay
2			Second	21-02-14	411.42	21-02-14	25-02.14	No delay
3		General Performance Grant	First	16.10.14	287.15	16.10.14	20.10.14	No delay
4			Second	20.11.14	287.15	20.11.14	03.12.14	**Delay of 13 days between credit confirmation and date of release order**

5		Special Area Basic Grant	First	16.09.13	3.95	16.09.13	20.09.14	No delay
6			Second	21.02.14	3.95	21.02.14	25.02.14	No delay
7		Special Area Performance Grant	First	17.06.14	3.95	17.06.14	19.06.14	No delay
8			Second	06.08.14	3.95	06.08.14	12.08.14	No delay
9	**2014-15**	General Performance Forfeited Grant		31.03.14	231.68	31.03.14	05.04.14	This includes the pooling and reallocation of Rs. 106 crore of 2012-13 also
10		Special Area Performance Forfeited Grant		31.03.14	9.75	31.03.14	05.04.14	These two orders includes the pooling and reallocation of R. 3.44 crore of 2011-12, Rs. 3.01 crore of 2012-13), Rs. 3.3 crore of 2013-14 and Rs. 2 crore of 2014-15
11		Special Area Performance Forfeited Grant		31.03.14	2.00	31.03.14	05.04.14	
12		General Basic Grant	First	31.07.14	420.45	31.07.14	06.08.14	No significant delay
13			Second	26.02.15	498.81	26.02.15	02.03.15	
14		General Performance Grant		31.03.15	272.75	31.03.15	31.03.15	
15		Special Area Basic Grant	First	31.07.14	3.95	31.07.14	06.08.14	
16			Second	26.02.15	3.95	26.02.15	02.03.15	
17		Special Area Performance Grant		31.03.15	3.75	31.03.15	31.03.15	
18	2015-16	Basic Grant	First	30.06.15	811.66	1.07.15	16.7.15	
19			Second	20.11.15	811.66	20.11.15	3.12.15	
20	2016-17	Basic Grant	First	26.08.16	1123.89	26.08.16	31.8.16	
21			Second	09.12.16	1123.89	02.01.17	02.01.17	
22		General Performance Grant		11.01.17	294.84	11.01.17	16.01.17	
23	2017-18	Basic Grant	First	21.7.17	1298.55	21.07.17	28.07.17	
24			Second	23.11.17	1298.55	23.11.17	28.11.17	

Table 24: Release of Grants for Odisha State

Sl no	Year	Type of grant	Instalment	Union government level: Date of release order	Union government level: Amount released by Union Govt (Rs. Cr)	State government level: Dt. of receipt.at state level	State government level: Date of State release order	Comments
1	2013-14	Gen Basic	First	22.10.13	202.40		26.10.13	No delay
2			Second	21.02.14	194.00		25.02.14	No delay
3			Third	31.03.14	48.77		05.04.14	No delay
4			Fourth	31.03.14	22.46			No information
5		Spl Basic	First	20.12.13	9.70		24.12.13	No delay
6			Second	21.02.14	9.70		25.02.14	No delay
7		Gen Performance	First					No information
8			Second					
9		Spl Performance	First					
10			Second					
11	2014-15	Gen Basic	First	09.07.14	198.10		15.07.14	No delay
12			Second	26.02.15	235.00		03.03.15	No delay
13		Spl Basic	First	28.07.14	9.70		28.07.14	No delay
14			Second	26.02.15	9.70		03.03.15	No delay
15		Gen Performance	First					No information
16			Second					
17		Spl Performance	First					
18			Second					
19	2015-16	Basic grant	First	13.7.15	477.76		15.7.15	No delay
20			Second	1.2.16	477.76		1.2.16	No delay
21		Basic grant	First	10.6.16	661.54		10.6.16	No delay

22	2016-17		Second	9.11.16	661.54		9.11.16	No delay
23		Performance						
24	2017-18	Basic grant	First	19.6.17	764.35		19.6.17	No delay
25			Second	10.10.17	764.35		10.10.17	No delay
26		Performance						

Table 25: Release of Grants for Rajasthan State

Sl no	Year	Type of Grant	Instalment	Union government level		State Govt. level		Comments
				Date and no. of release order	Amount released by Union Govt (Rs. Cr)	Dt. of receipt.at state level	Date of State release order	
1	2013 -14	General basic	First	25.07.13	307.71	25.07.13	31.07.13 01.08.13	**No delay**
2			Second	21.02.14	294.67	21.02.14	26.02.14	
3		Special basic	First	25.07.13	1.71	25.07.13	01.08.13	
4			Second	21.02.14	1.71	21.02.14	26.02.14	
5		General performance	First	22.11.13	210.02	22.11.13	26.11.13 29.11.13	
6			Second	11.03.14	201.32	11.03.14	18.03.14	
7		Special performance grant		31.03.14	171.20	31.03.14	07.04.14	Named as additional Performance Grant
8								
9	2014 -15	General performance (for Zila Parisad)		04.04.14	4.9816	04.04.14	07.04.14	The Ministry of Panchayati Raj cut general and special sector performance grant of non-performing states for FY 2012-13 and 2013-14. And given to Rajasthan State. This release includes the above mentioned acceptance also.
11		Special performance (for panchayat samiti)		04.04.14	19.9266	04.04.14	07.04.14	
13		General performance (for Gram Panchayats)		04.04.14	141.1465	04.04.14	07.04.14	

15		Special performance (for Gram Panchayats)		04.04.14	5.145	04.04.14	07.04.14	
14	2015 -16	Basic grant	First	18.8.15	735.98	18.8.15	28.8.15	Performance grant 2015-16 paid in 2016-17 (23-01-17)
15			Second	15.12.15	735.98	15.12.15	29.12.15	**Delay of 14 days between credit confirmation and date of release order**
16	2016 -17	Basic grant	First	30.6.16	1019.08	30.6.16	13.7.16	**Delay of 13 days between credit confirmation and date of release order**
			Second	9.11.16	1019.08	9.11.16	23.11.16	**Delay of 14 days between credit confirmation and date of release order**
17		Performance grant		15.03.18	302.55	15.03.18	20.03.18	Performance grant for 2016-17 was received in 2017-18. There was no delay in the release of these grant
18	2017 -18	Basic grant	First	19.6.17	1177.46	19.06.17	23.06.17	
19			Second					
20		Performance grant						

5.5.The following conclusions can be drawn from the data that has been collected from the States:

a. ***Relative predictability in transfer of funds*:** From the sample States, except for Assam where there have been chronic delays, in other States delays between the crediting of funds into the State treasuries and the issue of the sanction orders to reallocate the funds between the Panchayat tiers have been few and far between. While the guidelines for the TFC say that funds have to be transferred to the Panchayats within 5 to 10 days and there has been broad compliance, the transfer of funds to GPs was so delayed on occasions in Madhya Pradesh, Assam, Rajasthan and Bihar, that they ended up paying interest to the Panchayats. Furthermore, the C&AG audit in Madhya Pradesh discovered that an amount of Rs. 4.73 cr. was sanctioned as penal interest for delay of transfer of Basic Grant but the amount was not distributed amongst the GPs. What is reassuring is that the C&AG's vigilance has ensured that States are constantly monitored in this regard and deviances immediately detected.

b. ***Lack of data*:** In many States, data is simply not available, particularly with respect to the transfers during the TFC period. There is a lack of institutional memory in these States. Where the CPR researchers visited the offices of the Panchayati Raj Department concerned, typically the excuse given for lack of data pertaining to the releases of earlier years has been that the officials concerned have been transferred. The availability of online resources also vary from State to State. While the orders for sanction and release, including of pooled and reallocated funds have been placed online and is available in Karnataka and Maharashtra, the same cannot be said about other States.

c. ***Illustrations of divergence of funds***: Available data points to one recorded instance of a diversion of funds in Karnataka. In Karnataka, the task of providing water supply and streetlights, both of which were considered core services by the FoFC, have been devolved to GPs for over three decades. By way of background, the payment of electricity bills for streetlights has been a longstanding source of friction between the GPs and the Electricity Distribution Companies (ESCOMs). The ESCOMS accuse GPs of being irresponsible in not making payments of electricity bills sent to them and therefore advocating that payment of bills be made through deductions at source from grant transfers going to GPs. GPs state that the ESCOMS do not meter all installations and bill them on the basis of connected load, so they have to often pay for Streetlights even though electricity is not supplied to them. They also complain that deductions made in bulk and on a pro-rata basis from all GPs amounts to penalizing those GPs that have been regularly paying their electricity bills. With a view to balancing the interests of both parties, the GoK directed that 25% of FFC basic grants will be ESCROWED at source to pay electricity bill arrears of GPs. This came up for adverse criticism from MoPR and the AG Karnataka as violating the stipulation of the FoFC that no prior deductions shall be made from the allocations made to the GPs. The Karnataka government has thus withdrawn this order with effect from the current installment of

Basic Grants going to the GPs. It may be added that the Karnataka government has mandated that 60 percent of the Statutory grants going to the GPs as recommended by the SFC, shall be Escrowed to pay electricity bill arrears of the GPs.

5.6. While the study of the Sample States reveals only a few instances of delays in the transfer of funds and one instance deductions at source, this is not to say that such instances are rare. MoPR officers revealed in discussions that at least one State (Punjab) continues to delay the releases to the Panchayats indefinitely. As it claims to be fiscally stressed, it uses the Panchayat allocations as a 'float' for its own ways and means position, having decided that it is cheaper to pay the Panchayats an RBI rate of interest as compared to the higher rates prevalent for commercial borrowings. Similarly, it is learnt that Karnataka may not be the only State that deducts electricity bill payments at source from FoFC grants and that such practices may be prevalent in other States as well.

5.7. In conclusion, while there is a broad level of compliance to stipulations that aim for smooth and streamlined fund releases to the GPs without delay and diversion, there is a need for constant vigilance to ensure such compliance continues. The fact that at least one State is willing to brave the punishment for delayed releases, draws attention to the potential for a moral hazard, if the interest to be paid to the Panchayats for such delays is restricted to the RBI rate. That is not a sufficient deterrent to States that are in the throes of fiscal distress. Finally, it is troubling to note that many States do not keep track of the releases made to the Panchayats and that such orders are not available easily in the public domain. There is a need for creating a transparency portal where information is readily available on a national basis, of allocations, releases and expenditures across all States and Panchayats. This is discussed in greater detail in Chapter 6 of this report.

Chapter 6: Overall analysis and conclusions

6.1. Over 25 years since the 73rd and 74th Amendments introduced Articles 280 (3) (bb) and (c) into the constitution, which mandated the Union Finance Commission to determine the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and the Municipalities in the State, we are at an interesting juncture where we can trace the evolution of the grant system that provides a slice from the divisible pool of the Union government to LBs via the State Governments. The Tenth, Eleventh and Twelfth Finance Commissions broadly recommended grants for the LBs, amounting to around 1 to 1.5 percent of the divisible pool. The TFC broke fresh ground in increasing the allocation to around 2.5 percent of the divisible pool and earmarking a part of the grant for performance, based on the meeting of conditionalities that it laid down. That trend was continued by the FoFC, which recommended nearly 4.5% of the divisible pool as the grant and prescribed simpler conditionalities that were to be met. For the first time, the FoFC restricted the grant only to the RLBs at the first mile, the Village Panchayats, and mandated that these funds be used only for the delivery of core services that have been devolved to them, across nearly all States.

6.2. The imposition of conditionalities and performance grants that can be drawn only if these are met, has led to some interesting dynamics between the Union, the States and the LBs. which have been fully described in previous chapters. Two phenomena have distinctly emerged. First, the imposition of conditionalities, both as prescribed by the FCs and by the Union Government have adversely impacted the drawing of grants and in particular, of performance grants. Second, States have jockeyed to show formal compliance with the letter of some conditions (such as facilitating taxation by the Panchayats), even as they display no real interest in fulfilling the spirit of such conditions.

6.3. Paradoxically States, which are often positioned as the villains of the piece, always looking for opportunities to delay or divert funds that ought to go to LBs, are seen to by and large fall in line with the conditionalities. On the other hand, Union Ministries such as the MoPR, anxious to implement its policy agenda to strengthen decentralization, have imposed further conditions not envisaged by the FoFC. Clearly, the trend to impose conditionalities has led to the temptation for mission creep and both are going to be a reality that will need to be addressed. If such trends are not nipped in the bud, more ministries and departments will find ways of creeping up to control the finances of LBs and the benefits of the expanding window of finances to the latter will be negated. They cannot undermine the need to fund the LBs to meet their formal functional mandates, particularly their responsibility to deliver core services of a higher standard than at present.

6.4. The challenge for the FFC is to avoid the pit falls of earlier FCs. Is to see how to continue providing largely untied grants to LGs, whilst ensuring a modicum of expenditure responsibility and accountability, but without giving scope to Ministries and Departments to substitute their will for that of the LGs. It will need to address and counter the tendency for mission creep by concerned Ministries and Departments at the Union and State levels. It will need to closely examine the context in which conditionalities are imposed and whether they set out perverse incentives and are open to subversion.

6.5. We suggest an innovative approach to counter these trends by investing in transparency and open access to data, through the setting up of a Transparency Portal. Our recommendations are fully described in this chapter.

Approach of the FCs to the quantum of the supplementation provided to States:

6.6. There was no reference in the ToR of the Tenth FC regarding recommending grants to LBs. However, since the 73rd and 74th amendments to the Constitution became effective before the Commission finalised its report, it suo moto explored its constitutionally extended remit to make recommendations regarding measures to augment the consolidated funds of the states for this purpose. It pointed out that it could recommend such measures only after ascertaining the need for them from SFC reports, which were then unavailable. It therefore recommended ad hoc grants to RLBs at the rate of Rs. 100 per capita of rural population as per the 1971 Census. This worked out to Rs. 4380.93 crore. In the case of ULBs, the Commission recommended an amount of Rs. 1000 crore. The aggregate grant of Rs. 5380.93 crore represented 1.38 per cent of the divisible pool as estimated by the Tenth FC.

6.7. The Eleventh FC (EFC) was the first to have specific ToRs relating to LBs. Its ToRs echoed the words of the Constitution and mandated the EFC to suggest measures to augment the consolidated funds of states to supplement the resources of panchayats and municipalities on the basis of the recommendations made by the Finance Commissions of the States concerned. However, recognising that such recommendations were not available, the Commission was directed to make its own assessment about the manner and extent of such augmentation, in such circumstances. After an examination of the functioning of SFCs, the Eleventh FC noted the lack of synchronicity in the periods covered by the reports of the SFCs and the Finance Commission as well as the diversity in quality of the reports of these SFCs. It also observed that several States had delayed the submission of ATRs on the SFC reports. It therefore concluded that it was unable to take into account the recommendations of the SFCs, and therefore, recommended the release of ad-hoc grants amounting to Rs. 8000 crore for PRIs and Rs. 2000 crore for ULBs. The aggregate grant of Rs. 10,000 crore represented 0.78 per cent of the divisible pool as estimated by them.

6.8. The pattern of the Twelfth FC broadly followed that of its immediate predecessor. It noted that the data furnished by the states and SFC reports failed to provide a sound basis for estimation of the required augmentation of the consolidated funds of the states. It therefore recommended grants on an ad hoc basis amounting to Rs. 20,000 crore for the PRIs and Rs. 5,000 crore for municipalities. This represented 1.24 per cent of the divisible pool as estimated by them. However, it also imposed conditionalities regarding the strengthening of SFCs, in order to overcome the persistent lacunae it recognised in this regard.

Approach of previous FCs on conditionalities applicable to the supplementation:

6.9. All FCs thus far have imposed conditions of various degrees of intensity and detail that States and Panchayats need to meet in order to draw grants. The Tenth FC stipulated that its grant was not to be applied to establishment costs. It also expected LBs to provide matching contributions for the schemes drawn up to utilise these grants. However, compliance with this condition was not strictly monitored by the MoF or the MoRD – the MoPR was not yet established then. The Tenth FC also mandated that the amount provided would be additional to the normal devolution by the State Government, a safeguard to ensure that the State did not use the FC grants to substitute for its own grants to the LBs. The EFC listed the core civic services that it expected would be supported by its recommended grants. These included primary education, health, drinking water, street lighting and sanitation. It indicated that the funds released should be earmarked for operation and maintenance of these functions. The funds were otherwise untied with the proviso that they should not be used for payment of salaries and wages. Recognising the importance of LBs maintaining reliable and updated accounts, the EFC also earmarked separate allocations for the maintenance of accounts (Rs. 98.60 crore) and creation of a data base of the finances of local bodies (Rs. 200 crore) and as a measure of importance given to these reforms, directed that these activities would have the first charge on the grants.

6.10. The TwFC recommended that RLB grant be utilised to improve service delivery in water supply and sanitation schemes subject to their recovering at least 50 per cent of the recurring cost in the form of user charges. However, compliance with this condition was not made a condition precedent to the release of grants to the RLBs. The TwFC also emphasised the importance of building data bases and maintenance of accounts by local bodies, whilst not setting aside any funds for the same, even as it suggested that a part of their support be earmarked by the State Governments for this purpose. Recognising that earlier FC recommendations were necessarily ad hoc because they did not benefit from the reports of SFCs, the Twelfth FC made several recommendations with regard to the constitution, composition, mode and methodology of working of SFCs aimed at improving their functioning. Yet, in a significant observation, the TwFC recognised that conditionalities imposed for release of funds to LBs ultimately handicapped the very LBs for which they were meant. It observed that amounts not drawn essentially reflected the non-performance by State Governments to comply with the conditions laid down, and not that of the LBs. The TwFC concluded that conditionalities needed to be discouraged and suggested that no additional conditionality be imposed over and above the conditions suggested by the Commission itself.

6.11. Both the Tenth and the Eleventh Finance Commissions did not make any specific recommendations on monitoring whether the grants mandated to reach the LBs eventually did reach them. Internal assessments made by the MoPR[10] revealed that at least three States had delayed and diverted the funds meant to augment to finances of LBs, for other purposes. However, the EFC and TwFC noted with dismay that States had not fully drawn their allocations of LB grants. The release of grants over the period of 5 FCs is given in Table 26.

[10] The team leader of this consultancy, T.R. Raghunandan was a Joint Secretary of the MoPR when the report of the TwFC was under the consideration of the MoF and the MoPR, and is aware of these assessments, which were not made public. In two States, these funds were used to fuel State schemes that bypassed the Panchayats and in one State, to bail out a Cooperative Bank.

Table 26: Release of grants recommended by Union Finance Commissions to RLBs (In Rs, crore)

Commission	Category of grant	Amount allocated to RLBs	Details of allocation drawn		Details of allocation not drawn	
			Amount drawn	Percentage drawn	Amount not drawn	Percentage
10th FC		4380.93	3576.35	66.46	804.58	**16.61**
11th FC		8000.00	6601.85	82.52	1398.15	**17.48**
12th FC		20000.00	18926.79	94.63	1073.21	5.37
13th FC	Basic	41771.20	39732.33	95.12	2038.87	4.88
	Performance	22031.48	17471.83	79.3	4559.65	**20.70**
14th FC (as on July 2018)	Basic	86163.66	79181.26	91.90	6982.40	8.10
	Performance	8372.36	4606.35	55.02	3766.01	**44.98**

6.12. While the high percentage of grants not being drawn during the Tenth and Eleventh Finance Commission periods is due to the lack of safeguards and the ad hoc nature of the grants, the trend in both the TFC and the FoFC period for performance grant drawal to lag behind Basic Grant drawal, is disturbing and delivers some important lessons to future FCs. Significantly, even though the TFC recommended elaborate measures for pooling and reallocating the forfeited Performance Grants, this had only minimal effect on the flow of these funds, and a fifth still lapsed and was unavailable to LBs for their use. To better understand these trends and look at how fund flows are more streamlined in future, it is useful to do a stakeholder analysis of the various key actors in who influence and play key roles in the grant system on account of fiscal transfers recommended by the Union Finance Commission.

Table 27 presents a matrix in which the interests of key stakeholders in the value chain of movement of funds to LBs is analysed[11]:

[11] The team is grateful to Mr. Swaroop Iyengar, management consultant and co-Founder of Avantika Foundation Bangalore, for discussions leading to these insights.

Table 27 Stakeholder interest assessment matrix

Stakeholder	Level of operation	Interest	Likely Trend of Strategy
Ministry of Finance	National level	• Control over defining conditionality of fund release, aligned to the recommendations of the FCs • Control over the periodicity of release of funds, keeping in mind ways and means position of GOI • Agnostic to other conditionalities that MoPR or other Ministries may like to impose	• Abide to conditionalities on fund devolution to LBs suggested by FCs • Mildly supportive of further conditionalities suggested by other Ministries • Retain prerogative of when to release funds, • Open to delegating responsibility of monitoring compliance by States to MoPR
Ministry of Panchayati Raj	National level	• Establish sphere of influence and control over States in shaping and guiding the implementation of policies to strengthen decentralization, • Establish sphere of influence over other Ministries handling significant volumes of fiscal transfers for implementing Centrally Sponsored Schemes that pertain to the functional domain of Panchayats. • Increase its own influence over fiscal transfers by handling schemes	• Impose additional conditionalities on fund transfers to the Panchayats and gain responsibility over monitoring State compliance to these conditionalities • Tying down fund release to laudable process change, such as participatory planning, maintenance of accounts and transparency in reporting, by LBs
Ministry of Rural Development & its sub units	National level	• Emphasis on Rural Development outcomes, which in a practical sense, are driven by the various CSSs that the Ministry operates. • Neutral to the Decentralisation agenda per se; more interested in positioning the LBs as agents for implementing CSSs and	• Impose downstream conditionalities on the end use of devolved grants, so as to further augment and support implementation of the schemes of the Ministry, such as employment guarantee, sanitation and provision of drinking water supply

		achieving nationally mandated development goals, rather than to pursue the goal of empowered and devolved local governments as an end in itself	
Other line Ministries	National level	• Like MoRD, more interested in implementation of their CSSs than in democratic governance; interest in the latter only to the extent that LBs become their empowered agents to implement top down schemes	• Influence MoPR to impose conditionalities on end use of funds, or investments in the thrust areas of the Ministry concerned, as a precondition to the drawing of FC grants
Finance Department	State level	• Establish control at the state level over finances; • Attempt to use the supplementation given by the Union Government to substitute for State grants to the Panchayats • Deduct allocations at source to recover dues to State entities from the LBs	• Impose conditionalities on fund releases to LBs • Attempt to convert the allocations to ‘Schemes’ • Retain control over when to release funds, even going to the extent of paying interest to the LBs if there is a marginal benefit involved • Try to substitute CFC grants for SFC grants, in order to reduce fiscal burden on States • Proactive support to at source deductions and ESCROW mechanisms • Take path of least resistance and report compliance with GOI conditionalities, in order to fully draw performance grants • Set up State level ‘Empowered Committees’ to ensure that control is exercised over expenditure decision of LBs at all time.

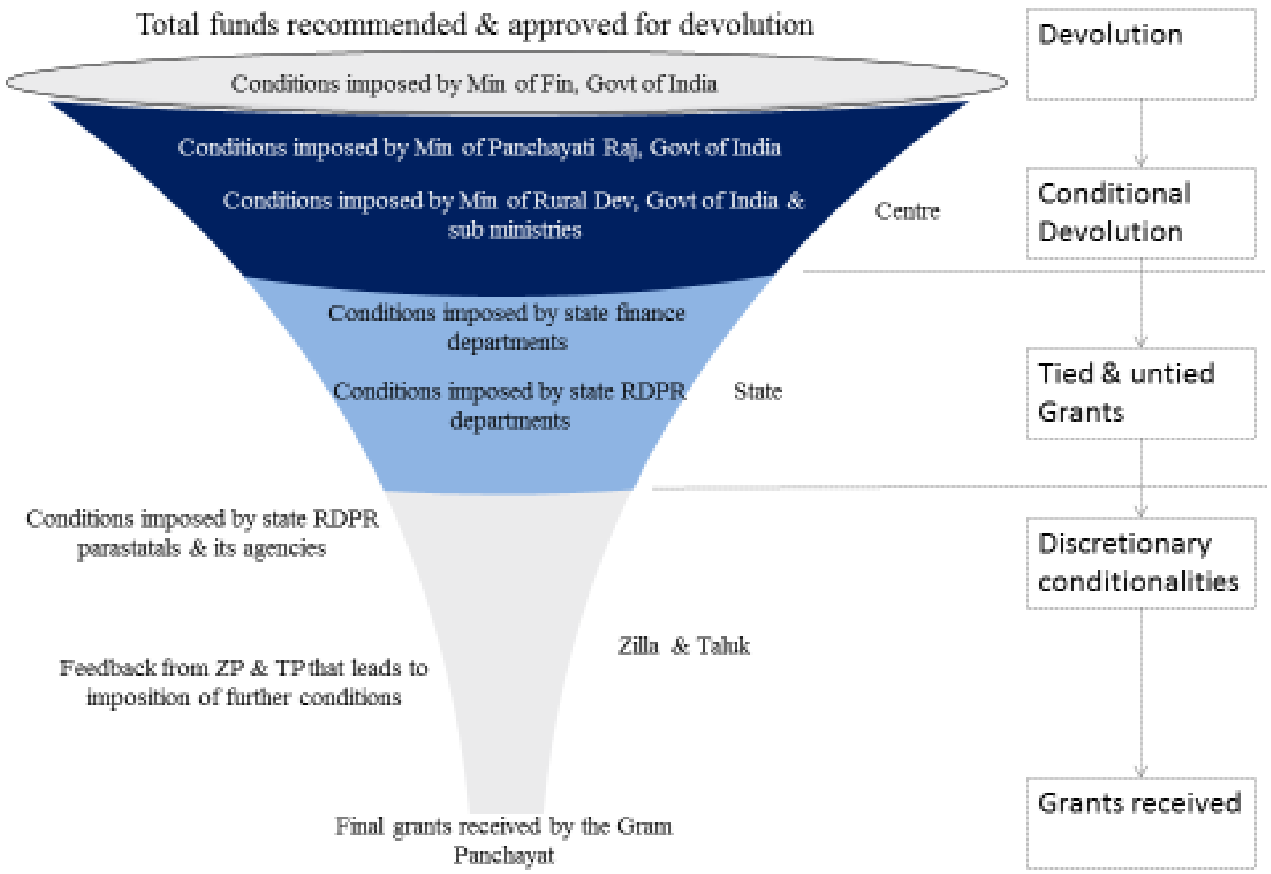
Rural Development & Panchayati Raj Department	State level	• In nearly all States, the PR department is not an autonomous department and is tied to the Rural Development department. Unless there is an overt political leaning and commitment to strengthening democratic decentralization, the thinking of Rural Development side of the combined department has a dominant influence. The trend is towards command and control over the LBs and persuading them by deeds and action to perform agency functions, rather than become devolved entities with their own autonomous functional and fiscal space. • Establish sphere of influence and control in shaping Panchayats as agents of the State.	• Impose downstream conditionalities on Gram Panchayats to strengthen the implementation of top down Rural Development Schemes. • Emphasis on convergence, as defined and strategized by the RDPR department • Informal control over expenditure decisions of GPs through financial controls exercised by State agents, namely, officers deputed to the local level • While the department resists the efforts of State Finance Department to substitute SFC grants by Union grants, it is not averse to imposing its own conditionalities on end use of the SFC grants • Unable to resist adverse moves such as postponement of LB elections, which leads to LBs being denied funds and no adverse consequences on the State finances.
Parastatals & agencies of RDPR and other line Department	State and local level	• Ring fence its own plan and fund allocations from being influenced by LBs • Establish sphere of influence at LB level to implement the agendas of the Parastatals and line department	• Aim to control implementation plans of LBs through supervisory and sanctioning powers (example, Engineering department sitting in judgment over plans of LBs, in the guise of technical sanction) • Participate in 'Empowered Committees' and influence them to impose further conditionalities on LG expenditure

District Intermediate and Village Panchayats	Local level	• Advocate for a greater role for themselves in functional assignments, while being averse to further decentralization to the next level. • Aim to increase sphere of influence over levels of local government below them • Resist encroachments into their functional space by parallel structures	• Seek more untied grants for themselves • Advocate for more functional responsibilities including oversight over levels below • Influencers who can recommend further conditionalities to the higher levels of government to establish sense of hierarchy and control over levels below them

Key Challenges:

The Key challenges are summarized in the figure below:

6.13. The narrowing of the funnel, due to the influence of various actors, is a trend that cannot be ignored when allocations are made for strengthening the finances of LBs, and when conditionalities are designed to ensure that that agenda remains in the forefront.



6.14. A perusal of Table 27 would show that while all Stakeholders may de jure support an agenda of democratic decentralization – indeed, they have no other option but to do so - their 'deep structures' drive them to jockey to garner greater influence and control responsibilities for themselves. Most entities that influence the flow of funds to local governments are driven by self-interest and not by lofty goals of deepening democracy, or to bolster the spirit of the Constitution to strengthen local governments. In such circumstances, Union FCs need to be mindful of the fact that conditionalities that they may impose may have downstream consequences in driving perverse incentives and that many entities may use these handles to distort, even reverse the objectives for which the conditions were imposed in the first place.

6.15. Having said that, the Union FC has itself a limited influence on downstream actions taken to implement its recommendations. They are indeed recommendations, and may be modified and embellished, even as the FC states that no further conditions ought to be imposed and that recommendation is formally accepted by the Union Government. The example of the GPDP suffices to illustrate the strong trend for 'Mission Creep', by an interested party.

6.16. When the recommendations of the FoFC were accepted, it coincided with a change of the Union Government and a paradigm shift in the approach to CSSs. When the large body of CSSs that existed earlier was dismantled, two programmes run by the MoPR, with a cumulative annual allocation of about Rs. 8000 crore (the Backward Regions Grant Fund and the Rajiv Gandhi Panchayat Sashaktikaran Abhiyan) were abolished. This reduced the budget of the MoPR to a negligible amount. The only way that the MoPR could regain its influence over other Ministries was to seek for a greater role in the disbursal and monitoring of expenditure of FoFC grants. Thus, GPDP was as much a survival strategy for the Ministry – a means by which it could argue for its continued relevance at the national level, as it was a laudable objective for Panchayats in themselves.

6.17. However, at the field level, the GPDP may have blunted, if not negated, the objective of the FoFC to provide a substantial source of grants to GPs to perform their core functions. Field visits that will be analyzed in the Component 2 report will investigate if the further conditionalities that have been imposed on specific end use such as ODF free villages, and complete immunization have hampered the LGs in their functioning. While these are desirable outcomes, they force GPs to spend funds on matters that States do not wish to transfer to the former's functional domain. For example, it seems unfair to burden GPs with the target of total immunization, when in most parts of the country, the programmatic interventions to achieve total immunization are not devolved to GPs.

6.18. There is a risk that perverse incentives can emerge as an undesirable outcome of the imposition of conditionalities. The condition that funds ought to flow within prescribed time limits to the Panchayats, failing which interest has to be paid at the prevailing RBI rate to them, is not sufficient disincentive to prevent delay and diversion. At least one State continues to delay and divert funds on the ground that it is fiscally stressed, and that paying RBI rates of interest to the Panchayats is cheaper than paying market rates of interest to banks for funds to bolster the State's ways and means position.

6.19. The FoFC mandated that only duly elected Panchayats would be eligible to receive its recommended grants. At least in two States, during the currency of the FoFC reports, elections have been unconstitutionally delayed for considerable periods of time. However for this lapse, the LBs are denied funds and not the States concerned, which continue to receive their revenue shares. It would be more telling if adverse consequences were visited upon the States that violate constitutional mandates for the conduct of elections to LBs and not upon the blameless LBs.

6.20. Crafting solutions to these problems may not entirely be in the hands of the FCs; the strengthening of democratic decentralization and the carving out of a useful, and not a symbolic, fiscal space for the LBs will be a work in progress at least for the near future. In states that are regarded as champions, the focus will be on the preventing of slippage; in other states, the journey to establish LBs as devolved governments, autonomous in their spheres of functional responsibility and accountable for their action, is going to be a long one, with plenty of political and bureaucratic bargaining on the sidelines

6.21. What the FC could do in such circumstances is to mandate systems that ensure information symmetry to all players, so that everybody concerned can keep a watch on the other and ensure that stipulations intended for their benefit are not distorted to work against their interests. Besides, it goes without saying that such a system ought to be completely transparent to citizens, who are at the centre of all efforts to strengthen democratic decentralization. We suggest a Transparency Portal that is maintained and run by the Government of India, preferably in the Ministry of Finance, to ensure that all stakeholders have access to real time data regarding the allocation, release and expenditure of LB grants. The Transparency Portal will enable

(a) Monitoring state wise, LB wise, category wise release of grants,

(b) Help in budgeting, planning and decision making based on the evaluation of all plans that may be mandated to be prepared by LGs to utilize FC grants.

(c) Maintaining time-series information related to each implementing stakeholder from GOI to state agencies and LBs themselves, which will enable in evaluating their respective performance

(d) Ensuring timely disbursal of funds,

(e) Providing up-to-date and near real-time information on utilization of funds

(f) Monitoring of outcomes up to the last mile

6.22. The key design principles for such a system should be

(a) That every LB in the country should be aware of the total funds allocated and released to LBs at the Union and State level on the basis of the recommendations of the FCs. Such access ought not to be asymmetric across LBs from different States, simply because the State does not have the capability to make such information transparent.

(b) Such information should be in real time and in the public domain as well, so that citizens also have equal access to such data.

6.23. In order to operationalize such a system, the key system requirements will be as follows:

(a) The Transparency Portal can be created as a collaborative platform between the Union, States and Local Governments. Every state can build its system on this platform to meet their tailored needs, whilst ensure that the module provides complete visibility into fund flows and actions by actors along the way of the release. To ensure that the common standards are met, this collaborative platform is best maintained at the GOI level by the MoF. This will avoid the possibility of different platforms for urban and rural local bodies, maintained by two separate ministries at the GOI level.

(b) With available capabilities and progress in online data availability, state of the art Machine Learning capabilities can be effectively used to examine data entered by all actors regarding conformity to conditionalities, and even to ensure that fund releases are dynamically made to those LBs that meet the conditionalities. It may even be possible to ensure that audited statements, which are emerging as a reliable statement of an expenditure conditionality being achieved, can be a public data record that is digitally signed by the DLFA or the Accountant General of the State Government concerned.

(c) The system can be made compatible with mobile devices, In other words, the downloading of an app should enable mobile users to quickly drill down and obtain data pertaining to their state, district or local government concerned.

6.24. Such a system is within the capability of the GOI to design and deploy. Today, the MGNREGA platform is a world-class platform that enables the public to go down not only to each Panchayat to obtain data, but to also drill down to each work taken up under the programme. The drinking water supply department has a similar system that monitors work progress and compliance with standards in respect of drinking water projects in all Panchayats. Similarly, though in another context, the GST portal has emerged as a gigantic system that interlinks a far greater number of entities, which number in crores, as compared to the total number of LGs in the country; which is not greater than 2.5 lakhs.