

## **Fiscal Imbalances at Local Level: Myth and Reality**

Shency Mathew

Research Associate, Gulati Institute of Finance and Taxation, Thiruvananthapuram

### **Abstract**

*Local Self Government Institutions (LSGIs) play a central role in planning and implementing various development projects and schemes according to the local needs and aspirations of the people. It is more important to have enough resources to perform these expenditure responsibilities and the functions transferred to the Local bodies. But the revenue receipts are dominated by grants-in-aid, with a share of more than 95 per cent of the total receipts (Panchayat Finance Report, RBI, 2024), rather than the own source of resources. Therefore, this article examines how successful the Finance Commissions (FC) are in tackling the issue of vertical and horizontal imbalance. As the first step, it analyses the approach of the past FCs towards strengthening the fiscal base and empowering democratic decentralization process with an aim to know whether the importance of local governments is realized or generally overlooked by them.*

### **Introduction**

The local governments play a vital role in regional and economic development, particularly in a country like India with significant regional differences and developmental challenges. As the third tier of the Indian federal structure, after Central Government and State Governments, the Local Governments are essential for addressing local needs and promoting inclusive growth. Federalism, which underpins this structure, primarily deals with the division of fiscal responsibilities and revenue receipts between these different levels of government. Despite their importance, discussions often focus on the higher tiers of

government, raising concerns about whether we adequately prioritize the smooth functioning of local governments and recognize their significance as a form of government.

The idea of local governments was there in the country in distinct forms. But it is recognized by the 73rd and 74th Constitutional Amendments (CA), 1992. Subsequent to this, Article 280(3) is amended by adding two sub clauses (bb) and (c) by realizing the need to strengthen the fiscal base of the third tier by transferring financial resources to boost local infrastructure growth and to improve the provision of better public good. Transfer of funds to lower levels of government can be justified on the basis that such transfers can help equalize income distribution throughout the country by reducing inter-regional service and income differences (Oommen, M A, 1995 quoted (p.7) Hrisch, W E, 1970). The constitutional mandate to augment the consolidated fund of a state to supplement the resources of panchayats (280(3) (bb)) and municipalities (280(3) (c)) is to maintain a vertical balance by reducing the gap between the resources transferred to the Local Bodies (LBs) and the expenditure responsibilities of the states on an equitable basis. Also, it is concerned about the horizontal balance in terms of the criteria adopted by the past commissions to share the resources between states. Therefore, it is important to know whether the addition of these clauses after the 73rd and 74th CAs improved the fiscal base of the local governments or not and how successful the Finance Commissions (FC) are in tackling the issue of vertical and horizontal imbalance. As the first step, this article analyses the approach of the past FCs towards strengthening the fiscal base and empowering democratic decentralization process with an aim to know whether the importance of local governments is realized or generally overlooked by them.

## **Vertical and Horizontal Fiscal Gap**

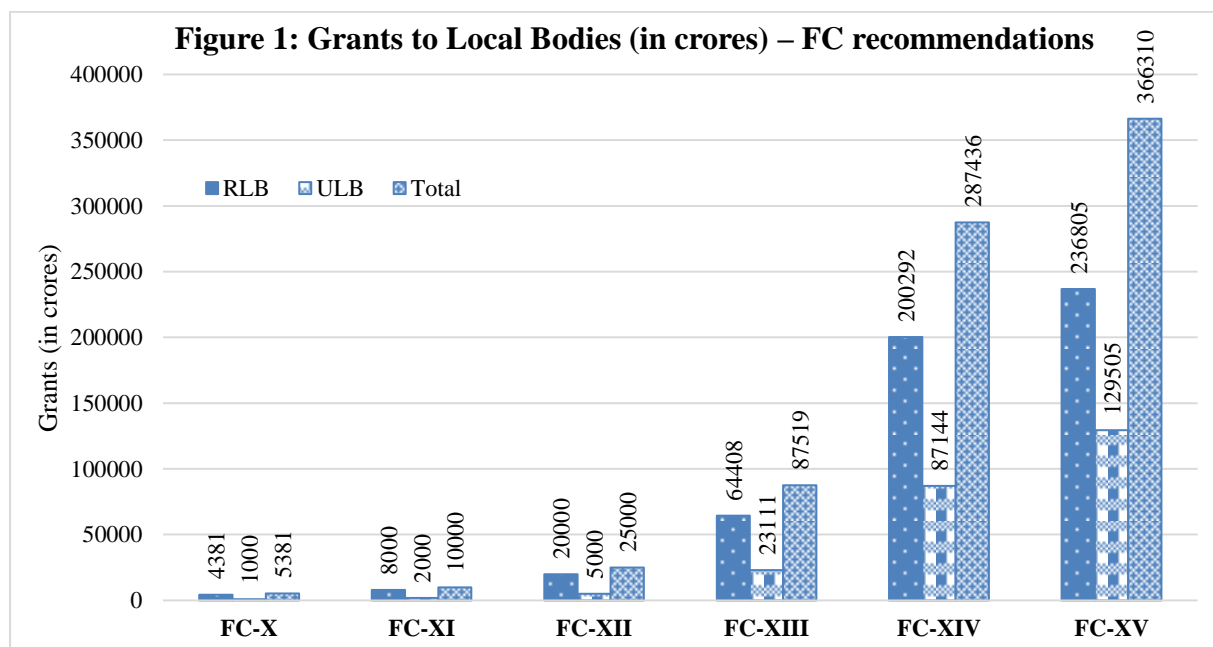
### **Vertical Fiscal Gap**

It is imperative that the resource requirement of the local bodies is huge compared with the assigned expenditure responsibilities. Since the local bodies are poor in mobilizing own resources, they are completely dependent on the grants transferred from the above tiers of the governments. But it is very difficult to estimate the fiscal gap of the local bodies due the lack of accurate and comparable data at the local level. To deal with this, past Finance Commissions (FC) assigned studies to different agencies or institutions. Along with this, the respective ministries such as Ministry of Rural Development (MoRD) and Ministry of Urban Development (MoUD) also used to submit their requests to the FC. Based on the reports

received from these entities, FCs took decisions on the share of divisible pool to be transferred into the local level.

Subsequent to the CAs, so far Six Finance Commissions (FCX, FC-XI, FC XII, FC XIII, FC-XIV, FCXV) have deliberated on the critical issues related to the effective functioning of the local bodies and made a good number of recommendations. The Terms of Reference (ToR) was the same for all the Commissions except FC X.

FC-X was constituted in 1992 - a year before the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments. Its ToR did not specify considering grants for the local bodies. Even if the ToR of FC X did not specify anything regarding the grants to local bodies, it recommended Rs.5381 crores (Figure 1), which was around 1.38 percent of the divisible pool in order to enable them to discharge the new role assigned to them during its award period. The assessment of MoRD on the requirement of Rural Local Bodies (RLBs) was Rs.7500 crores, but the actual amount recommended was 58 percent of it. Likewise, without waiting on the SFC reports and other suggestions, MoUD suggested for Rs.500 crores. But an estimate of financial needs for Urban Local Bodies (ULBs) prepared by National Institute of the Urban Affairs showed that the requirement ranges between Rs.5987 crores (actual is 16.7%) to Rs.12980 cores (actual is 7.7% of it) (FC report X, 48).



Source: XV FC report, Chapter 7, Page 172

The FC XI doubled the recommendation to Rs.10000 crore. This was primarily for the maintenance of civic services which includes provision of primary education, primary health care, safe drinking water, street lighting, sanitation including drainage and scavenging facilities, maintenance of cremation and burial grounds, public conveniences, and other common property resources in rural and urban areas. Also, the commission recommended funds specifically to set the area of accounts and audit in respect of local bodies under the close supervision of the Comptroller and Auditor General of India (C&AG). The third area of the concern of FC XI was the non-availability of data on the finances of the local bodies. Therefore, they recommended grants in this sake for the creation of the database relating to the local body finances.

The study sponsored by the FC XI to NIRD estimated an amount of Rs.225731 crore as the requirement of the RLBs which included capital expenditure of Rs.83603 crore. But the amount recommended to RLBs was just 3.5 percent of it, Rs.8000 crore. The study done by NIPFP estimated the requirement of ULBs in a range from Rs.6907 crore to Rs.32598 crore. But the allocation based on the recommendation was Rs.2000 crore. Likewise, the gap between the requirement submitted by the MoRD and MoUD and the actual recommendation by the FCs is huge.

FC XII recommended Rs.20000 crore to use to improve service delivery relating to water supply and sanitation in the case of RLBs specifically. Also, it is expected that the Rural and Urban Local Bodies have to give high priority to spend for the creation of databases on their finances and maintenance of accounts through the use of modern technology and management systems. The FC recommendation to ULBs was Rs.5000 crore, which was just 6.8 percent of the estimation by the study of NIPFP. Since the study by NIRD could not succeed in assessing the net additional resource flow from the states to the panchayats, it is difficult to find the gap between estimation based on the study and FC recommendation. But the MoRD and Department of drinking water supply (DDWS) together proposed an amount of Rs.52668 crore. The amount recommended for RLBs by FC XII was 38 percent of this proposal.

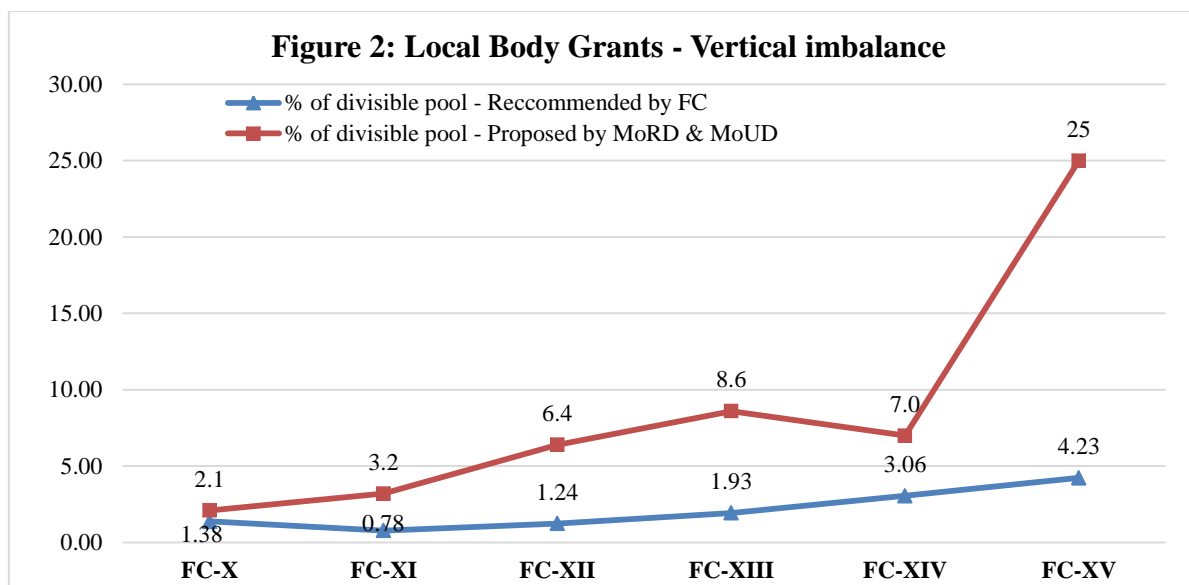
<b>Table 1: The Gap between Estimated amount and the FC Recommendation</b>				
<b>FC</b>	<b>LB Type</b>	<b>Estimated By</b>	<b>Estimated amount (in crores)</b>	<b>Actual as % of Estimated</b>
<b>FC X</b>	<b>RLB</b>	Ministry of Rural Development	7500	58.41
	<b>ULB</b>	Ministry of Urban Development	500	200.00
		National Institute of the Urban Affairs <sup>+</sup>	12980	7.70
<b>FC XI</b>	<b>RLB</b>	Ministry of Rural Development	22500	35.56
		Memoranda of 18 states	33115	24.16
		Study done by the NIRD*	225731	3.54
	<b>ULB</b>	Ninth plan document	50000	4.00
		India infrastructure report, 1996 (Rakesh Mohan committee)	125000	1.60
		Zakaria committee norms (1963) updated in 1997-98	72099	2.77
		Ministry of Urban Development	18500	10.81
		Memoranda of 18 states	39900	5.01
The study done by NIPFP <sup>^</sup>	32598	6.14		
<b>FC XII</b>	<b>RLB</b>	Ministry of Rural Development <sup>@</sup>	23468	37.89
		Department of drinking water supply (DDWS) <sup>\$</sup>	29200	
		Study done by the NIRD <sup>#</sup>	-	
	<b>ULB</b>	Ministry of Urban Development	76896	6.50
		The study done by NIPFP	74000	6.76
<b>FC XIII</b>	<b>RLB</b>	Ministry of Rural Development!	217967	24.20
		Department of drinking water supply (DDWS)	48160	
<b>FC XV</b>	<b>ULB</b>	Ministry of Urban Development	125871	18.36
<b>FC XV</b>	<b>RLB</b>	Ministry of Rural Development <sup>&amp;</sup>	1012000	23.40
	<b>ULB</b>	Ministry of Urban Development <sup>~</sup>	1575575	8.22
+ funds requirement ranges from Rs.5987 crores (Actual is 16.7% of it) to Rs.12980 crores				
* Rs.83603 crore (capital expenditure)				
<sup>^</sup> funds requirement ranges from Rs. 6907 crores (Actual is 29.96% of it) to Rs.32598 crores				
<sup>@</sup> Rs.23468 crores at the rate of Rs.2 lakh/ gram panchayat/ annum				
<sup>\$</sup> 29200 crore (to fill gaps in water supply & sanitation)				
<sup>#</sup> The study could not succeed in assessing the net additional resource flow from the states to the panchayats				
<sup>!</sup> Rs.122967 crores (operational infrastructure)				
<sup>&amp;</sup> Rs.12000 crores (additional grant)				
<sup>~</sup> Rs.348575 crores (devolution) and Rs.1227000 crores (bridging the gap of municipalities)				
<i>Source: Various FC reports</i>				

The grants transferred to LBs during FC XIII period showed a jump to Rs.87519 crore. Out of this, an amount of Rs.64408 crore was earmarked for panchayats and Rs.23111 crore was earmarked for municipalities. The amount recommended for RLBs was 24 percent of the requirement submitted by the MoRD and Department of drinking water supply (DDWS) together and the amount recommended for the ULBs was 18 percent of the submission of MoUD. This recommended grant had two components – a basic component and a performance-based component. FC stipulated six conditions for RLBs and nine conditions for

ULBs to be met in each of the award period to access the performance grant. A special area grant also was provided for the areas excluded from Part IX and IX A of the Constitution. This grant also had two components – a special area basic grant and a special area performance grant. Here also, to avail the performance grants, four conditions had to be met by the States. In the cases where the States were unable to draw their performance grant and the amount not drawn was to be redistributed based on the specified conditions.

Likewise, the grants recommended by the FC XIV also had two parts – an unconditional basic grant and a conditional performance grant. For duly constituted gram panchayats, the ratio between the unconditional basic grant and conditional performance grant was 90:10 and for municipalities the ratio was 80:20. On this, the basic grant was intended to deliver basic civic services. But the performance grant was left to be determined by State Governments. For this, FC XIV recommended an amount of Rs.200292 crore for panchayats and Rs.87144 crore for municipalities.

The following FC XV provided tied grants for building basic services like sanitation, drinking water, solid waste management, to all the three tiers of panchayats as well as to areas under the Fifth and Sixth Schedules of the Constitution and Cantonment Boards in urban areas. That is, 50 percent of the grants to RLBs were tied to (a) sanitation and maintenance of ODF status and (b) supply of drinking water and rainwater harvesting. Likewise, 50 percent of the grants were tied to (a) drinking water (including rainwater harvesting and recycling) and (b) solid waste management for ULBs in towns other than Million-Plus cities. For the Million-Plus cities, in 2020-21, the total grant of Rs. 9,229 crore was fully tied (Rs. 4,400 crores for the improvement of ambient air quality and Rs. 4,829 crores for the improvement of conservation, supply and management of water and efficient solid waste management. Therefore, the recommended amount was Rs.236805 crore for panchayats and Rs.121055 crore for municipalities. This amount recommended for the RLBs was around 23 percent of the proposal of the MoRD and the amount recommended for the ULBs was around 8 percent of the proposal of the MoUD.



Source: Calculated

The wide gap between the submission or proposal of different agencies/ institutions/ ministries on the requirement of the funds to the local bodies and the actual recommendation of the past FCs, clearly states an answer to the question of the sufficiency of the amount transferred to the local bodies. Figure 2 underlines the vertical fiscal gap exists in transfer of funds to the local bodies as proportionate to the divisible pool. The recommendation of MoRD and MoUD together was 3.2 percent of the divisible pool during FC XI. But the actual recommendation was just 0.8 percent. Also, the amount released during the FC period was 84 percent of the recommendation (Table 2). The gap between MoRD & MoUD proposal and FC recommendation is widening in the following periods also. It is the highest in the case of FC XV, where the MoRD & MoUD together proposed a share of 25 percent of the divisible pool transfer to the LBs. But the actual transfer was 4.2 percent.

FC	RLBs			ULBs			Total		
	Recommen ded	Releas ed	%	Recommen ded	Releas ed	%	Recommen ded	Releas ed	%
FC-X	4381	3576	81.6	1000	834	83.4	5381	4410	81.96
FC-XI	8000	6602	82.5	2000	1752	87.6	10000	8354	83.54
FC-XII	20000	18927	94.6	5000	4470	89.4	25000	23397	93.59
FC-XIII	64408	58257	90.7	23111	18980	82.1	87519	77237	88.25
FC-XIV	200292	179491	89.6	87144	74259	85.2	287436	253750	88.28
FC-XV*	236805	-	-	121055	-	-	357860	-	-

\* Grants for primary health sector (Rs.70051 crore), Grants for incubation of new cities (Rs.8000 crores) and Grants for shared municipal services (Rs.450 crores) are not included.

Source: XV FC report, Chapter 7, Page 172

## Horizontal Fiscal Gap

Along with the recommendation of the share of fund transfer to the local bodies, it is important that how it is shared among the States. For this, various commissions followed distinct criteria for the recommendation of resources to the States for local bodies (Table 3). The share of the resources that each States received based on these criteria in each FC period is presented in Table 4.

	FC-X	FC-XI	FC-XII	FC-XIII		FC-XIV	FC-XV
				RLG	ULG		
<b>Census</b>	<b>1971</b>	<b>1971</b>	<b>2001</b>	<b>2001</b>		<b>2011</b>	<b>2011</b>
Population	100	40	40	50	50	90	90
Geographical Area		10	10	10	10	10	10
Distance from highest per capita income		20	20	10	20		
Index of decentralisation		20		15	15		
Index of deprivation			10				
Revenue effort		10	20				
Proportion of scheduled castes scheduled tribes in population				10	0		
FC local body grants utilization index				5	5		
	100	100	100	100	100	100	100

*Source: XV FC report, Chapter 7, Page 173*

State	FC X	FC XI	FC XII	FCXIII	FC IV	FC V
Andhra Pradesh	7.93	9.20	7.84	8.29	4.28	4.32
Assam	2.74	2.50	2.32	2.13	2.22	2.64
Bihar	10.67	8.80	7.06	6.59	8.24	8.26
Chhattisgarh			2.81	2.42	2.38	2.39
Gujarat	4.82	4.80	5.38	4.22	5.23	5.26
Haryana	1.84	1.80	1.92	1.77	2.08	2.08
Jharkhand			2.32	2.25	2.77	2.78
Karnataka	5.43	5.20	4.84	7.54	5.27	5.29
<b>Kerala</b>	<b>3.80</b>	<b>4.00</b>	<b>4.54</b>	<b>3.11</b>	<b>2.67</b>	<b>2.68</b>
Madhya Pradesh	7.63	8.70	8.10	6.51	6.52	6.56
Maharashtra	8.92	9.70	11.10	10.07	9.55	9.59
Odisha	4.09	3.90	3.63	3.58	3.70	3.72
Punjab	2.49	2.10	1.98	2.04	2.28	2.29
Rajasthan	4.75	5.90	5.80	5.96	6.31	6.36
Tamil Nadu	7.49	6.60	5.77	6.33	5.92	5.94
Telangana					3.05	3.04
Uttar Pradesh	16.37	15.70	13.78	14.79	16.01	16.05
West Bengal	8.43	7.80	6.66	6.68	7.25	7.26

*Source: Computed based on the data from various FC reports*



FC X considers rural population as per the 1971 census to devolve funds to RLBs and interstate ratio of slum population derived from the urban population figures to devolve funds to ULBs as the only criteria for the recommendation of grants (FC Report X, p.48). Based on this criterion, the most populated states such as Uttar Pradesh, Bihar, Maharashtra and West Bengal were receiving the highest share.

Population continued to be an important factor during FC XI also and allocated 40 percent of the amount to the States on the basis of rural/urban population of the State. With the view that it should not be the sole basis for State-wise allocation, they gave weight to other criteria such as index of decentralisation (20 percent), revenue effort (10 percent - by combining the average of the ratio of own revenue collection of the panchayats/ municipalities with the own revenue of the State for the corresponding years (5 percent) and the ratio of own revenue of the panchayats/ municipalities for three recent years, with the SDP for the corresponding years (5 percent)), distance from the highest per capita agricultural income (20 percent) with the assumption that the States with low per capita SDP will continue to have problems in raising revenue, require additional support, and geographical area (10 percent) (FC Report XI, p.81). When these new criteria were added into the list, the states which are toppers in receiving the highest share has slightly changed. But due to the highest weightage is assigned to population, Uttar Pradesh remained in the top position, even though the share has slightly declined. Maharashtra and Andhra Pradesh improved its position to second and third respectively with an improved share. But Bihar moved behind to these states with a lower share than the previous FC period.

FC XII also followed the general acceptance of the criteria of population and geographical area and retained the weights recommended by the FC XI: Population (as per 2001 census) – 40 percent and Geographical area – 10 percent. The commission retained the criteria of distance from the highest per capita income as evolved by the FC XI with the same weight of 20 percent. Though the commission retained the criteria of revenue effort also, its weight has increased to 20 percent in such a way that; 10 percent is for own revenues of the local bodies to the state's own revenue with an assumption that it can serve as proxy of revenue decentralization and 10 percent is for the own revenues of the local bodies to SDP. Rather than the index of decentralisation adopted by the previous commission, they constructed an index of deprivation by taking intra-state disparities on the basis of data relating to certain minimum needs of the population by using the State-wise census 2001 data with a break up between rural and urban areas on drinking water and sanitation, which are the two core

services performed by the local bodies and assigned a weight of 10 percent to this criterion (FC Report XII, p.156). They have decided to drop the criterion index of decentralisation in the form that FC XI used with the assumption that almost all states have taken effective steps for the implementation of the 73rd and 74<sup>th</sup> amendments. By dropping decentralisation index and including deprivation index, the share of resources among the states changed. Even though Uttar Pradesh maintained in the top position, its share declined from the previous two FC periods. But Maharashtra remained in the second position with an improvement in its share. Since the share of Andhra Pradesh and Bihar declined again, Madhya Pradesh came to third position in terms of share of resources to the Local Bodies.

FC XIII dropped criteria such as revenue effort and index of deprivation due to the credibility issues of the available data. But they proposed the aggregate percentage of Scheduled Castes (SCs) and Scheduled Tribes (STs) in a state as a proxy for deprivation. By considering the relevance of it in the rural areas than in the urban areas, commission proposed to allot differential weights for rural and urban areas in such a way that a weight of 10 percent has been assigned for RLBs and no weight for ULBs. They retained the criteria such as; population (50 percent), area (10 percent) and income distance (10 percent for RLBs and 20 percent for ULBs) with a slight difference in their weights. ULBs assigned with a higher weight in income distance criterion with an assumption that it dominates the caste criterion in urban areas. Along with this, FC local body grants utilization index with a weight of 5 percent also is utilized. This index is prepared on the basis of the percentage of undrawn amounts from the proposed. For computing this index, FC confined to an examination of the grants awarded by FC-XII and the releases made to State Governments thereafter (FC Report XIII, p.177). Though there is no change with these changes in criteria, in the first and second position in the list of States on the share of resources based on the FC recommendation, Uttar Pradesh retained the first position with an improved share and Maharashtra remained in the second position with a decline in share. Andhra Pradesh came back to third position with an improvement in share. Surprisingly, Karnataka came to fourth position with a notable improvement in share.

Marking a departure from the previous commissions, FC XIV noted the practical difficulties in considering an appropriate index or indices for devolution that is uniformly applicable to all States, irrespective of their socio-political and institutional context. They were of the view that even if such an index could be designed, it would not assess the actual level of devolution due to the unavailability of accurate, reliable information of the ground position.

Therefore, the commission recommended distribution of grants to the States on the basis of urban and rural population of that State using the data of Census 2011 data with weight of 90 percent and area with weight of 10 percent with the justification that the delivery of basic civic services is related to the current population to be served within the administrative jurisdiction of the local body and the area is relevant from the viewpoint of the costs of delivering such services (FC Report XIV, p.111). FC XV also followed the same criteria adopted by FC XIV by giving 90 percent weight to population and 10 percent weight to area (FC Report XV, p.173). These two criteria are quite obvious and the position of States remains unchanged. The bigger states in terms population and size will obviously come on top. Therefore, Uttar Pradesh, Maharashtra, Bihar and West Bengal are the toppers in the receiving end as in FC X.

<b>Table 5: Share Difference</b>					
	<b>Between FC XIV and FC XII, FC XIII</b>		<b>Between FC XV and FC XII, FC XIII</b>		
	<b>FC XIV- FC XII</b>	<b>FC XIV- FC XIII</b>	<b>FC XV-FCXII</b>	<b>FCXV- FCXIII</b>	<b>FCXV- FCXIV</b>
<i>Andhra Pradesh</i>	<b>-3.56</b>	<b>-4.01</b>	<b>-3.52</b>	<b>-3.97</b>	0.04
Assam	-0.10	0.09	0.32	0.51	0.42
Bihar	1.18	1.65	1.20	1.67	0.02
<i>Chhattisgarh</i>	<b>-0.43</b>	<b>-0.04</b>	<b>-0.42</b>	<b>-0.03</b>	0.01
Gujarat	-0.15	1.01	-0.12	1.04	0.03
Haryana	0.16	0.31	0.16	0.31	0.00
Jharkhand	0.45	0.52	0.46	0.53	0.01
<i>Karnataka</i>	0.43	<b>-2.27</b>	0.45	<b>-2.25</b>	0.02
<i>Kerala</i>	<b>-1.87</b>	<b>-0.44</b>	<b>-1.86</b>	<b>-0.43</b>	0.01
<i>Madhya Pradesh</i>	<b>-1.58</b>	0.01	<b>-1.54</b>	0.05	0.04
<i>Maharashtra</i>	<b>-1.55</b>	<b>-0.52</b>	<b>-1.51</b>	<b>-0.48</b>	0.04
Odisha	0.07	0.12	0.09	0.14	0.02
Punjab	0.30	0.24	0.31	0.25	0.01
Rajasthan	0.51	0.35	0.56	0.40	0.05
<i>Tamil Nadu</i>	0.15	<b>-0.41</b>	0.17	<b>-0.39</b>	0.02
<i>Telangana</i>					<b>-0.01</b>
Uttar Pradesh	2.23	1.22	2.27	1.26	0.04
West Bengal	0.59	0.57	0.60	0.58	0.01

Source: Computed from Table 3

In general, the position of states in receiving shares based on FC recommendation from the period of FC X to FC XV remains largely unchanged. The bigger States such as Uttar Pradesh, Maharashtra, Bihar, West Bengal and Madhya Pradesh remains in the top position in receiving LB grants mainly because of the two major criteria; population and area, commonly adopted by all these commissions. But there is huge change in the shares. When a state like

Kerala is concerned, the share of LB grants is declining over the period and during XIV<sup>th</sup> and XV<sup>th</sup> FC periods, when population and area are considered as the criteria – the share earmarked for the state is very less as compared to the previous periods. Along with Kerala, States such as Maharashtra, Karnataka, Tamil Nadu, Madhya Pradesh and Chhattisgarh also lost their share in FC XIV and FC XV from the previous FC periods. But when criteria such as Revenue effort, Income distance and Index of deprivation taken into consideration along with population and area, States such as Kerala, Madhya Pradesh, Maharashtra and Chhattisgarh were receiving a good share during the period of FC XII. But the States such as Karnataka and Tamil Nadu were benefitting during the period of FC XIII, where the criteria such as income distance, Index of decentralisation, Proportion of scheduled castes scheduled tribes in population and FC local body grants utilization index along with population and area used. This raises the question of concern whether the criteria such as population and area alone are enough to address the fiscal needs of the local bodies.

### **Conclusion**

With two important points, the discussion on fiscal gap at the local level can be concluded. First, the local bodies are in need of resources to perform the assigned fiscal responsibilities especially after the constitutional recognition by way of the 73<sup>rd</sup> and 74 Constitutional Amendments. Revenue mobilization at the local level is more challenging especially in the context of the newly introduced tax system, GST in the country, which has squeezed much of the taxing powers of the sub-national governments. Therefore, FC XVI should recommend to increase the share of local body grants transferred to the states in order to perform the fundamental tasks unhindered at the local level by realising the fiscal gap between the expenditure responsibilities and resource requirement. Secondly, FC should seriously think on reinventing the criteria for distribution of the earmarked share of grants for Local Bodies among the States. We have seen the disparities in adopting population and area as the only criteria to devolve funds to States, from the past experiences. Many States were receiving lesser share than the previous periods. Therefore, the new FC should focus more on dividing fund which ensure equity, efficiency and performance by adding suitable criteria as some of the previous commissions were used (distance from the highest per capita income - used by FC-XI, FC-XII and FC-XII, index of decentralization - used by FC-XI, the index of utilization of local grant - used by FC-XIII etc.).

**References**

- Government of India (1994), *Report of the Tenth Finance Commission*, New Delhi, pp. 46-48
- Government of India (2000), *Report of the Eleventh Finance Commission*, New Delhi, pp. 71-85
- Government of India (2004), *Report of the Twelfth Finance Commission*, New Delhi, pp. 136-160
- Government of India (2009), *Report of the Thirteenth Finance Commission*, New Delhi, pp. 149-185
- Government of India (2014), *Report of the Fourteenth Finance Commission*, New Delhi., pp. 98-125
- Government of India (2020), *Report of the Fifteenth Finance Commission*, New Delhi., pp. 169-303
- Oommen, M.A. and Datta, A. (1995). *Panchayat and their Finance*, Institute of Social Sciences, New Delhi.
- Panchayat Finance Report (2024). Reserve Bank of India.