

# Conditional Grants

March 9, 2021

**In News:** Fifteenth Finance Commission has increased proportion of grants conditional on reforms

## Grants from the Centre conditioned on reforms in states

- Major set of the commission's recommendations pertain to grants from the Centre.
- 15th FC has sharply increased the proportion of grants whose receipt is conditional on specified reforms being undertaken.
- 57 per cent of the 15th FC-recommended grants accepted so far by the GoI are conditional, relative to just 17 per cent for the 14th FC (including J&K).

## What are the conditions ?

## Setting up of State Finance Commission (SFC) and applicability of SFC's recommendations for 5 years only

- The Constitution requires state governments to set up State Finance Commissions (SFC).
- The 15th FC has asserted that the mandate of any given SFC is intended to be applicable only for five years.
- Only 15 states have set up their fifth or sixth SFCs, whereas several states have not moved beyond their second or third SFC.
- Staggering 84 per cent of the Rs 4.4 trillion grants for local bodies recommended by the 15th FC are conditional on the states setting up SFCs for the coming five-year period, and acting on their recommendations by March 2024.

## Availability of online accounts

- Entry-level condition for availing grants by rural and urban local bodies pertains to the timely availability

of their accounts online from 2021-22 onwards.

### **Notifying floor rate for property tax**

- For the receipt of grants by the urban bodies, states are required to notify a floor rate for property tax by 2021-22, and demonstrate consistent year-wise improvement from 2022-23 onwards.
- This will complement the conditions set previously by SEBI for ULBs to become eligible to raise municipal bonds

### **Finance Commission**

- The Finance Commission is constituted by the President under article 280 of the Constitution, mainly to give its recommendations on distribution of tax revenues between the Union and the States and amongst the States themselves.

### **Functions of the Finance Commission**

It is the duty of the Commission to make recommendations to the President as to:

- the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds;
- the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;
- the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;
- any other matter referred to the Commission by the President in the interests of sound finance.

## **Who appoints the Finance Commission**

The Finance Commission is appointed by the President under Article 280 of the Constitution.

- As per the provisions contained in the Finance Commission [Miscellaneous Provisions] Act, 1951 and The Finance Commission (Salaries & Allowances)

## **What are the qualifications for Members?**

As per Rules, 1951, the **Chairman** of the Commission is selected from among persons who have had experience in public affairs, and the **four other members** are selected from among persons who:are, or have been, or are qualified to be appointed as Judges of a High Court; or have special knowledge of the finances and accounts of Government; or have had wide experience in financial matters and in administration; or have special knowledge of economics