

# THIRTEENTH FINANCE COMMISSION

## Introduction

The Thirteenth Finance Commission (FC-XIII) was constituted by the President under Article 280 of the Constitution on 13 November 2007 to make recommendations for the period 2010-15. Dr. Vijay Kelkar was appointed the Chairman of the Commission.

## Terms of Reference

The Terms of Reference (ToR) of the Commission included among others the following:

“... 4. The Commission shall make recommendations as to the following matters, namely:-

*i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;*

*ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and*

*iii) 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.....*

## Recommendations

Recommendations relating to improvement of State Statistical System is given below-

### ***“Improving Transparency in Government Accounts***

*12.97 Transparency in government accounts improves the feedback loop, reflects the fiscal impact of all policy initiatives and enhances accountability, thus ensuring greater productivity. We discuss separately various initiatives to aid transparency in Central and State Government accounts, including accrual accounting, maintaining consistency in financial accounts across states and improving audit mechanism. In the following paragraphs, we discuss two specific initiatives for enhancing the quality of data-*

*strengthening statistical systems at the state and district level and setting up a data base for State Government employees and pensioners.*

### ***Improving Statistical Systems in State Governments***

*12.98 A number of steps have been taken to strengthen the statistical system in the country. The National Commission on Statistics (NCS) was set up to comprehensively steer the growth of the statistical system in the country and oversee all initiatives for its growth. The National Strategic Statistical Plan (NSSP) 2008 sets out the medium term strategy for empowering the existing statistical framework to produce comprehensive good quality relevant economic and social data for policy and decision making. The India Statistical Project (ISP) focuses on strengthening the statistical capacity of all states and Union Territories. In particular, they are being encouraged to effectively meet the national minimum standards with regard to twenty key statistical activities.*

*12.99 Despite these impressive achievements, a number of important issues remain to be addressed. These are outlined below:*

*i) FC-XII noted the need to measure Gross State Domestic Product (GSDP) at market prices consistent with national estimates, instead of at factor cost, as is presently being done. This is still not available. Further, the measurement of GSDP across states should be standardised such that use of comparable GSDP series by the Finance Commission and other bodies is made redundant.*

*ii) This Commission has elsewhere made recommendations on the need to incorporate environmental considerations into government policy. As part of this effort the estimation of Green GDP/GSDP would be very valuable. Such an estimate would account for depreciation of natural assets and consider loss of income due to environmental degradation.*

*iii) Comparable estimates of district income are extremely relevant for measuring intra-state income disparities. This will enable State Governments to effectively plan policy and programme interventions. They could also be used as a parameter for horizontal distribution of fiscal transfers. As many as 23 states have generated district income statistics for the period 1999-2000 to 2005-06. For these to be usable, all states should generate this data in accordance with the guidelines of the Central Statistical Organization (CSO). They also need to be validated at the national level to ensure comparability.*

*iv) For equitable horizontal distribution, the measurement of cost disabilities is important. The cost of services varies across states due to a large number of factors such as geographic location, population size and distribution and demographic characteristics. Further, to estimate cost disabilities of states, two types of data are required: (a) quantifiable measure of the level of various services available in different states and (b) the corresponding unit cost. As of now, such data are not available.*

v) *Measurement of inter-regional trade data would be useful to provide insights in an inter-regional framework.*

12.100 *We recommend that the Ministry of Statistics take steps to fill in the statistical gaps outlined above. To ensure that the National Strategic Plan is implemented effectively, this Commission recommends grant assistance to State Governments, which should be utilised by them to fill in infrastructure gaps.*

12.101 *At least 75 per cent of the grant will be utilised for strengthening statistical infrastructure at the district level not covered by the India Statistical Project and the proposed CSS pertaining to Basic Statistics for Local Level Development. A maximum of 25 per cent of the grant can be used for improving statistical infrastructure at state headquarters. States will be eligible for Rs. 616 crore in the aggregate, with Rs. 1 crore being provided to every district. State-wise eligibility for this grant is placed in Annex 12.14.*

12.102 *The grant will be drawn down in five annual instalments. The first instalment will be drawn down only after the state submits an expenditure plan for the entire grant. All subsequent instalments will be drawn down after submission of UCs/SOEs for the previous instalments. States are provided the flexibility to modify their expenditure plan at any time.....”.*

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