Suggestions on Issues Related to the Terms of Reference of the Fourteenth Finance Commission

By:

Centre for Budget and Governance Accountability

New Delhi

(www.cbgaindia.org)

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1. Need to pay attention to the inability of the State Governments to address the problem of staff shortage

The Terms of Reference of the Fourteenth Finance Commission do not make any specific reference to the important issue of the acute shortage of human resources in the State Governments, especially in the development sectors in the relatively backward States.

It can be argued that shortage of staff, especially in the regular cadres of the State Government departments in sectors like, education, health, water and sanitation, rural development and agriculture, among others, is one of the main factors affecting the coverage as well as quality of government interventions in these crucial sectors across many States.

The evidence compiled by some of the think tanks and civil society organisations indicate that the problem of staff shortage has grown into a crisis in governance in the country. For instance, a report submitted recently to the Union Ministry of Health and Family Welfare by the Public Health Foundation of India (PHFI), based on studies conducted in six States on shortages in allied healthcare professionals, argues that "the shortage of quality human resources is one of the major challenges faced by the public health domain in India". The report highlights that, in healthcare sector in the country, shortages of skilled / technical professionals are far greater compared to those of non-technical staff and that the overall shortage amounts to more than 64 lakh in absolute numbers (Table 1).

Table 1: Shortages of Technical Professionals in Healthcare Sector (in absolute numbers), All India

Ophthalmology	20,207
Optometric	1,07,351
Clinical psychologist	2,661
Rehabilitation Practitioner	305
Rehabilitation Social worker	1,57,036
Community based Rehabilitation Professional	1,43,835
Cardiac care	3,105
Lab technicians	25,257
Radiology	19,297
Dental related	20,42,148
Surgical and Anesthetists	8,58,143
Total	33,54,088

Source: Compiled from the Report submitted by Public Health Foundation of India (PHFI) to Union Ministry of Health and Family Welfare, January 2013.

Centre for Budget and Governance Accountability's own compilations, based on some civil society study reports and government documents, also indicate similar shortages of staff in different sectors in the relatively backward States (Table 2).

Table 2: Shortages of Staff in Madhya Pradesh and Odisha in Selected Sectors (in State Government Departments), 2012

	Selected Sectors (State Government Departments)	*Shortages of Staff in 2012* as against *Sanctioned Strength*
Madhya Pradesh*	Health: Gynecologists	54.2 %
	Health: Pediatricians	43.6 %
	Health: Anesthetists	48.1 %
	Water and Sanitation: Rural Drinking Water	47.0 %
	Selected Sectors (State Government Departments)	*Shortages of Staff in 2012* as against *Sanctioned Strength*
Odisha**	Education	25.7 %
	Finance	37.1 %
	ICDS: Anganwadi Workers and Anganwadi Helpers	8.6 %
	ICDS: Others (supervisory staff)	28.0 %

Source: *Compiled from - Vikas Samvad (2012), *Status of Maternal and Child Health Services in Madhya Pradesh: A Situation Analysis*, Bhopal, Madhya Pradesh
** Calculated from - Govt. of Odisha (2012), *FRBM Special Statement, State Budget of Odisha for 2012-13* and information provided at *www.icds.gov.in*

It is important to note here that the problem of staff shortage is likely to be more acute in skilled / technical staff positions (including all three kinds of such staff, viz. programme managerial staff, finance and accounts staff, and skilled service providers) than the unskilled / support staff positions. Moreover, the extent of shortages (being depicted in Table 2, for instance) are with reference to the number of posts sanctioned in different States, which is likely to be dated in many cases.

The consequence of this problem in terms of inadequate coverage and poor quality of government interventions in the development sectors is not difficult to observe, but the most widespread manifestation of the same is the poor resource absorption capacity of States in the Plan schemes in many sectors. Centre for Budget and Governance Accountability's studies on some of the Plan schemes in the social sectors (in States like, Uttar Pradesh and Chhattisgarh) have revealed that shortage of staff has weakened the State Government apparatus in these sectors, which, as a result, has not been able to utilize effectively the Plan funds provided by the Centre in the flagship schemes.

The cause for this problem of shortage of staff in the regular cadres of the State Government departments, however, seems to be rooted in the kind of 'fiscal consolidation' strategies that the State Governments have followed over the last decade. In their attempt to eliminate the Revenue Deficit (and even show a Revenue Surplus, in some cases), many States seem to have checked their Non-Plan spending (particularly in development sectors) by freezing the recruitments in regular cadres of their departments for more than a decade now. An analysis of the fiscal policies of States, especially those striving to eliminate the Revenue Deficit or achieve a Revenue Surplus in their budgets, is quite likely to reveal similar trends of recruitments in regular posts being almost frozen for a long time.

The policies in the domain of Centre-State sharing of resources over the last one a and half decades seem to have neglected the need for greater magnitudes of untied resources being transferred to State Governments, though the transfers of resources tied to the conditionalities / objectives of the Centre (such as, those in the Central schemes, Additional Central Assistance for State Plans and Special Central Assistance for State Plans) have gone up. The transfers of resources tied to the conditionalities / objectives of the Centre do not enable the State Governments to increase or even sustain the existing levels of long-term expenditure commitments, especially those on staff in the regular cadres of their departments.

In the prevailing fiscal architecture in the country, the Finance Commission is the only institution, which can address the problem of inability and/or unwillingness of the State Governments to make long-term expenditure commitments on staff / human resources. Hence, the Fourteenth Finance Commission needs to pay attention to this problem and explore the possible remedies in the domain of sharing of untied resources with State Governments as well as the kind of 'fiscal consolidation' strategies that State Governments should follow during 2015-16 to 2019-20.

2. <u>Some of the 'non-core mandate' issues in the TOR raise a concern</u>

The TOR of the Fourteenth Finance Commission (FFC), like those of the previous Commissions, includes the three clauses adhering to its Constitutional mandate of making recommendations, which are:

a) Extent of vertical and horizontal distribution (between the Union and the States) of net proceeds of taxes,
b) Principles which should govern the grants-in-aid of revenue of the States out of the Consolidated Fund of India, and
c) Measures needed to augment the Consolidated Funds of the States to supplement the resources of the local bodies.

Apart from these three clauses, the TOR also asks the FFC for recommendations on 'any other matter referred to the Commission by the President of India'. So long as the 'other items' pertain to the issue of maintaining a sustainable fiscal environment, it is apt for the FFC. However, a list of 11 'consideration items' have been included in the TOR of the FFC, some of which do not seem to be related strictly to the interests of sound finances of the Union or the States. These include issues such as,

i) the level of subsidies that are required, having regard to the need for sustainable and inclusive growth, and equitable sharing of subsidies between the Union Government and State Governments;
ii) the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions;
iii) the need for making the public sector enterprises competitive and market oriented; listing and disinvestment; and relinquishing of non-priority enterprises; and
iv) the need to balance management of ecology, environment and climate change consistent with sustainable economic development.

These inclusions appear to be motivated by the requirements to provide a governmental position on the ongoing debates on subsidies, cost recovery, environmental misuse and disinvestment rather than by the requirements of the Constitutional mandate for the Finance Commission and, therefore, constitute the 'non-core mandate' for the FFC. Thus, it remains up to the FFC to decide whether or not to 'consider' these items for making recommendations in its report.

In the context of the 'non-core mandate' for the FFC, some of the issues confronting the State Governments have been dealt with effectively in the recommendations made by the B. K. Chaturvedi Committee (of the Planning Commission, pertaining to restructuring of the Centrally Sponsored Schemes in the Twelfth Five Year Plan) and the Punchhi Commission, and these have also been supported by most States; the FFC could take a position on whether it endorses any of these recommendations.

Also, some of the 'non-core mandate' items for consideration of the FFC, such as, 'pricing of public utilities', could be best left to be dealt with by respective sectoral policymakers and regulators.

3. Taking the base of population figures as of 1971

Clause 4 of the TOR of the FFC requires it to "generally take the base of population figures as of 1971" in all relevant cases, which has been challenged by States with larger population on the parameters of equity in the past. While the adherence to this has been a regular and contentious criticism of the preceding Finance Commissions, the addition to this clause (4 of the TOR of the FFC) that "the Commission may also take into account the demographic changes that have taken place subsequent to 1971" makes it rather ambiguous in terms of the expectations from the FFC. The FFC could consider providing appropriate clarification on its intention to act upon the additional instruction quoted above.

4. Grants in Aid to Local Bodies

The third 'core mandate' for the FFC pertains to 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"*. Given the persistence of deep-rooted problems in the domain of devolution of finances to local bodies (especially the rural local bodies) in most States, this clause in the TOR of the FFC should have been elaborated further, highlighting some of the specific challenges that need to be addressed.

For instance, the (Central) Finance Commission grant is being provided to local bodies for operation and maintenance as well as improving service delivery; but there is a restriction that the grant should not be applied to establishment cost. However, it has been observed that PRIs are implementing a large number of Central schemes without adequate administrative cost and core support for staff, which is posing a major problem in some cases. Centre for Budget and Governance Accountability's ongoing research in this area has revealed that in States like Uttar Pradesh (in Barabanki district) and Rajasthan (in Alwar district), the problem of staff shortage in the District Panchayat as well as in the relevant State Government departments (like, Rural Development, and Panchayati Raj) is acute (Table 3). In Uttar Pradesh, for instance, one Panchayat Secretary looks after 5 to 6 Gram Panchayats.

Table 3: Status of Vacancies in Uttar Pradesh (Barabanki district) and Rajasthan (Alwar district)

	Sanctioned Post	Filled Post	Vacant Post	Vacancies
Barabanki (UP)				
Panchyati Raj Department	158	114	54	**34.18 %**
Rural Development Department	389	315	74	**19.02 %**
Zilla Panchayat	158	92	66	**41.77 %**
District Rural development Agency	37	20	17	**45.95 %**
Alwar (Rajasthan)				
Zilla Panchayat	72	52	19	**26.39 %**

Source: Compiled by CBGA from the respective departments in Barabanki and Alwar.

It can be argued that the restrictions on the use of the Finance Commission grant by the rural local bodies should be relaxed, enabling the PRIs to hire the required core staff.

Hence, the issue of the restrictions on the use of the Finance Commission grant by the rural local bodies should have found a mention in the TOR of the FFC.

Likewise, some observers have opined that District Panchayats (in some States) are trying to obstruct decentralization to the lower levels of governance, especially to the Gram Panchayats. This issue too needs to be looked at closely by the FFC.

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Submitted to the Fourteenth Finance Commission by:

Centre for Budget and Governance Accountability (CBGA)

CBGA, an independent think tank based in New Delhi, scrutinizes public policies and budgets in India and advocates for greater transparency, accountability and scope for participation in budgets. For further details about CBGA's work, please visit *www.cbgaindia.org*.

Centre for Budget and Governance Accountability
B-7 Extn./110 A (Ground Floor), Safdarjung Enclave, New Delhi- 110029
Ph: 011-49 200 400 / 401 / 402; Fax: 011- 40504846
Email: info@cbgaindia.org; Website: www.cbgaindia.org