

GIST OF SUGGESTIONS FROM STATE GOVERNMENTS FOR T.O.R. OF TWELFTH FINANCE COMMISSION

A: MAIN SUGGESTIONS:

S. No.	State(s)	Suggestions
1.	Andhra Pradesh Kerala Maharashtra Tamil Nadu	Methodology: Terms of Reference should lay down broad principles and should be evolved through consultations with the state governments under aegis of Inter-State Council/National Development Council (vide recommendations of the National Commission on Review of the Working of the Constitution). Consultation regarding composition of Commission too.
2.	Assam Madhya Pradesh Orissa Rajasthan Tripura	Plan & Non-Plan Revenue: Total revenue gap (Plan & Non-Plan) should be assessed by the Finance Commission and covered by devolution and grant. [EFC was asked but did not do]. May be termed as Developmental and Regulatory expenditure. Plan non-Plan dilemma: Planning exercise leads to more borrowings, which increase fiscal deficit.
3.	Bihar Haryana Jammu & Kashmir Rajasthan Tamil Nadu Uttar Pradesh West Bengal	Population: Population figures according to 1991/2001 Census (and not 1971 Census) should be used in all cases where population is regarded as a factor for determination of central devolution.

4.	Bihar Tripura	Terrorism: Special grants for meeting expenditure on combating terrorism and development of border areas. Security related expenditure to be reimbursed to the fullest extent.
5.	Jharkhand	Naxalism: special central assistance for modernization and strengthening of the police force to combat Naxalism.
6.	Arunachal Pradesh Assam Bihar Chhattisgarh Gujarat Haryana Orissa Punjab Rajasthan Tamil Nadu Tripura West Bengal	Debt Relief: Assessment of debt position of States as on 31.3.2005 and suggest corrective measures. Rescheduling of debts. Formulate a general scheme of debt relief. Writing off of old debts. Reducing interest rates on outstanding loans in the context of declining interest rates. Debt burden due to natural calamities. Examination of debt position of newly created states. One time grant for special category states to clear at least the principal amount.
7.	Bihar Gujarat Haryana Orissa West Bengal	Natural Calamities: Assessment of impact of natural calamities on the states' economy and resources. Review of Calamity Relief Fund. Compensation for loss of tax and non-tax revenues due to natural calamities.
8.	Haryana	Synchronization of F.C. with State FCs, and FYP period.

	Uttar Pradesh	
9.	Himachal Pradesh Madhya Pradesh	Environmental Protection: Compensation for environmental protection measures and resultant sacrificing of economic activity. Extent of forest cover in the State to be made a criteria for devolution.
10.	Jammu & Kashmir Jharkhand Karnataka Madhya Pradesh West Bengal	Local Bodies: assess deficit of local bodies and provide adequate grant for construction of Panchayat ghars. Incentive to states for release of grants to local bodies. Functioning of local bodies should be one of the parameters in the horizontal distribution of resources. Demands on State Governments on account of recommendations of State Finance Commission.
11.	Haryana Jammu & Kashmir Karnataka Manipur Meghalaya Mizoram Orissa Sikkim Tripura Uttar Pradesh	Fiscal Reforms Facility: The size of the incentive fund should be fixed as a percentage of the total devolution of funds to the state. Twelfth FC should ensure equitable distribution of incentive funds, which should be meaningful enough to encourage State Governments. Restrict the scope and ambit of MTFRP as achieving 5% improvement in revenue surplus every year is highly impracticable and unfair. May be scrapped as withholding of grant has caused financial difficulties. It is contrary to the spirit of the Article 275, which does not envisage any conditionality. Tax devolution and grants-in-aid should not be used as a means of imposing fiscal reforms on the States; a separate fund, outside the purview of the Finance Commission, may be created for the purpose.
12.	Kerala	VAT/MAT: Mechanism to compensate revenue losses on account of

	Madhya Pradesh Jharkhand West Bengal	replacement of sales tax by VAT. Distribution of revenue to be made in such a way that States are not put to loss due to MAT.
13.	Arunachal Pradesh Jharkhand Madhya Pradesh Tripura	Infrastructure: Address needs of states with less than national average stock of infrastructure. Remedial Measures for imbalance in infrastructure development to attract private investment.
14.	Orissa	Gross Receipts: Transfers on the basis of gross receipts of Central Taxes rather than net proceeds (Constitutional amendment).
15.	Orissa	Revenue Gap: Reducing gap between per-capita non-plan revenue surplus of the state and average per-capita revenue surplus of all States taken together. Hence criteria like infrastructure, low per-capita income, poverty ratio, etc. should be given predominant consideration.
16.	Meghalaya Orissa Tripura	Monitoring release of Share: Actual release of share in Central taxes is less than recommended by FCs. Ensure that the amounts recommended for devolution are actually devolved. TwFC to indicate minimum amount as a mechanism to compensate for such losses. Non-Plan Gap Grant should be increased by the quantum of shortfall in State's share of Central taxes.
17.	Orissa	Sinking Fund & Guarantee Redemption Fund: Incentive scheme to consolidate and strengthen the Sinking Fund and Guarantee Redemption Fund (RBI).

18.	Orissa	Earlier Commissions: Review recommendations of earlier commissions to compensate for palpable injustices.
19.	Karnataka Madhya Pradesh Orissa	Market Borrowings: Flexibility to raise borrowings within the overall ceiling. Rational system for allocation of market borrowing. Mechanism to provide greater access to market borrowing to fiscally disadvantaged states.
20.	Goa Haryana Rajasthan	Fiscal Prudence: Earmark some percentage of divisible pool for observing fiscal prudence, raising revenues and balancing the budgets. Formula to compensate financially disadvantaged states and penalize financially imprudent states. Incentive-disincentive mechanism based on fiscal and financial performance.
21.	Kerala Mizoram Rajasthan	Normative Criteria / Realistic Assessment: Adopt a normative approach and objective criteria in the assessment of revenue gap rather than base it on analysis of historical data. Quantum of gap grant to be based on realistic assessment of the resources, infrastructure and financial condition of the State rather than normative approach. Determination of discretionary grants to be need-based and not hypothetical.
22.	Rajasthan	Floor limit for User charges: Examine the subsidy regimes of States and evolve a floor limit for user charges to be levied for various services.
23.	Tamil Nadu Manipur	Demand on States' Resources: Take into account the resources of the States and demands thereon due to social services, policing, debt servicing etc.
24.	Tamil Nadu Manipur	Downsizing/Unemployment: Assess levels of incremental funding for skill redevelopment in the context of right-

		sizing / downsizing / unemployment and take into account for purposes of devolution. Attractive incentives for downsizing.
25.	Himachal Manipur Meghalaya Tripura	Special Category States: At least 30% of the vertical devolution to be allocated among the Special category States on the analogy of the Central Plan Assistance. Restore the share of the Special category States to at least the level provided by the TFC. Earlier principle of award for meeting committed liabilities of all special category state to be restored. Landlocked nature and limitation of rail and air links also taken as indicators of backwardness.
26	Uttar Pradesh	Non-Plan Capital Gap: Assess 'non-plan capital gap' and suggest relief measures.
27.	Assam Bihar Manipur Meghalaya Mizoram Orissa West Bengal	Fifth Pay Commission: Off-set financial burden on state on account of direct and indirect effect of the recommendations of the Fifth Pay Commission. Implementation of the Pay Commission report. Subsequent to the award of the EFC may be taken into account. In the context of the adverse impact of the recommendations of the Fifth Pay Commission, have a national wage policy. Suggest mechanism under which Central Government cannot announce revision of pay and allowances without consulting the States.
28	Bihar	Fundamental Right to Primary Education: In the context of primary education having been made a fundamental right, make recommendations to meet the additional requirements of funds for its implementation.
29.	Chhattisgarh Uttaranchal	New States: Specific assessment of financial position with reference to special problems and make

		recommendations for grant-in-aid for building up physical and administrative structure. This should cover the remaining period of the EFC too.
30.	Madhya Pradesh	Reorganized States: Special allocation for reorganized states.
31.	West Bengal	Fiscal Imbalance: Reordering of Centre-State relations in order to rectify the persisting fiscal imbalance. Desirability of increasing the level of tax sharing to 50%.

B. OTHER SUGGESTIONS

S. No.	State	Suggestion
1.	Assam	(1) Suitable step up in the allocation to States in absolute terms by increasing the share of the States in Central revenues, broadening the tax base, raising additional taxes and duties under Articles 268 and 269.
2.	Bihar	(2) Increase the share of the States in Central taxes & duties. (3) Special grant for backward States. (4) Grant for creation of training and education infrastructure in newly reorganised States. (5) Grants to local bodies based on population and local needs. (6) Additional grant for implementing welfare programmes based on the directions of courts in Public Interest Litigations.
3.	Chhatisgarh	(7) Policies of the Central Government have been standing in the way of expansion of the resource base of the States e.g. revision

		of royalty of major minerals, revision of upper limit of Professional Tax, expansion of the scope of service tax etc.
4.	Goa	(8) Method for channelising the bank deposits made by NRI from a particular State for development of infrastructure in that State. (9) Setting up of an appropriate forum for exchange of ideas regarding revenue mobilisation.
5.	Gujarat	(10) Make recommendations regarding implementation of the Directives Principles of State Policy enshrined in the Constitution.
6.	Haryana	(11) Suggest transfer of certain taxes from the Concurrent List to State List. (12) Indicate the basis of its findings and make available state-wise estimates of receipt and expenditure.
7.	Himachal Pradesh	(13) Implement recommendations of the Seventh Finance Commission for converting small savings loans into loans into perpetuity.
8.	Jammu & Kashmir	(14) Take cognisance of States' power deficit while working out the revenue gap grant. (15) Withheld portion of gap grant to be released in the first month of the financial year. (16) SRE needs to be made a permanent part of assistance. (17) Grant power to the States to identify schemes for utilisation of upgradation grants.
9.	Jharkand	(18) Recommend special grant for e-governance.

		<p>(19) Assistance for: completion of large and small irrigation projects, new rail project, development of tourism, mines and mineral based industries etc.</p> <p>(20) Computing royalty for minerals on the basis of value.</p> <p>(21) Provide guidelines for guarantees, use of urban land etc.</p>
10.	Kerala	(22) TFC's formula of devolution based on the weighted average of actual receipts preferable to EFC's formula.
11.	Madhya Pradesh	(23) Revise mining royalties as recommended by the EFC.
12.	Maharashtra	<p>(24) Special focus on the problems of mega metros like Mumbai.</p> <p>(25) Small savings loan should not be treated as loans in perpetuity.</p> <p>(26) Define intra -state Income Distribution Pattern (IDP) and Below Poverty Line (BPL) as criteria for devolution and give due weightage to them.</p>
13.	Manipur	<p>(27) Adopt normative approach for maintenance expenditure rather than pegging it to past trends.</p> <p>(28) Provide for all Plan posts, which were transferred to non-Plan.</p>
14.	Meghalaya	<p>(29) Benchmark the average rate of interest at which Central loans are passed on to the States. Such rates not to exceed more than 1% above the average cost of borrowing by the Central Government.</p> <p>(30) Since minimum consumption needs like clothing, shelter, fuel etc. are much higher in hill areas, the nominal per capita rate should be moderated or deflated by a</p>

		certain percentage point factor for hill the States.
15.	Mizoram	(31) Provide separate fund for transfer of maintenance expenditure of assets created during the 7 th , 8 th and 9 th Plan periods into non-Plan.
16.	Orissa	(32) Distribution should be effected in such a manner as to reduce the gap between the rich and the poor states. (33) In case of devolution to local bodies, provision of matching share should be left to the ability of the States. (34) Provision for maintenance expenditure on upkeep of capital assets created up to March 2007. (35) Mechanism for bridging the in resource raising capacity of economically weaker States through devolution.
17.	Punjab	(36) Clear cut policy for effecting improvement in fiscal situation. (37) Review the unrealistic grant-loan ratio of Plan assistance for non-special category States. (38) No conditionalities for use of resources transferred to local bodies. (39) Special need of Punjab as a border State.