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1. Report On Datasets for State Finance Commissions - Economy

The Ministry of Panchayati Raj has released the Report of the Committee on Datasets for State Finance Commissions (SFCs) to strengthen evidence-based fiscal decentralisation.

1. State Finance Commissions face critical challenges in data availability and quality hampering effective fiscal resource distribution between state and local governments.
2. The report recognises that reliable and granular local governance data is essential for effective fiscal decentralisation and empowering Panchayati Raj Institutions.

1.Understanding State Finance Commissions

Constitutional Status and Functions

1. State Finance Commissions are constitutional bodies constituted under Article 243-I of the Constitution following the 73rd Constitutional Amendment Act, 1992.
2. Every State Government is required to constitute a State Finance Commission every five years to review the financial position of Panchayats.
3. SFCs recommend principles governing distribution of financial resources between State Governments and Panchayati Raj Institutions.
4. They recommend sharing of taxes, duties, tolls, and fees between State Governments and Panchayats ensuring equitable resource distribution.
5. SFCs also recommend grants-in-aid to Panchayats from the Consolidated Fund of the State supporting local governance operations.

2.Critical Challenges Facing State Finance Commissions

Lack of Consolidated Financial Accounts

1. Financial statements from Panchayats are usually incomplete using varied and non-standard accounting methods creating data inconsistency.
2. This makes it extremely difficult for SFCs to prepare clear, accurate, and complete picture of overall financial position of local bodies across entire state.
3. Incomplete data prevents informed decision-making on resource allocation reducing fiscal decentralisation effectiveness.

Capacity Gaps at Local Level

1. Many Gram Panchayats lack trained accountants, book-keepers, or staff understanding modern accounting and data management systems.
2. Without adequate human capacity, even well-designed data systems fail to capture accurate financial information.

Fragmented Data Systems

1. Data relating to finances, assets, governance, and service delivery is scattered across multiple departments without integration.
2. Absence of integrated databases increases delays and reduces quality of SFC assessments.
3. The Fifteenth Finance Commission noted average delay in SFC report submission was about sixteen months reflecting systemic inefficiency.

3.Key Recommendations of the Committee

Data Classification and Standardization

1. Panchayat Advancement Index indicators should be classified into categories such as needs, performance, and backwardness facilitating objective fiscal analysis.
2. SFCs should adopt common reporting template improving consistency and comparability of reports across states.

Institutional Mechanisms

1. States should establish permanent State Finance Commission Cells maintaining and periodically updating fiscal and governance data ensuring data continuity.
2. Performance audit by Comptroller and Auditor General of India should assess implementation of 73rd Constitutional Amendment.

Capacity Building and Training

1. State Finance Commissions should receive regular training on data systems, analytical tools, and digital platforms such as eGramSwaraj.
2. A comprehensive SFC Manual should guide future State Finance Commissions on methodology, data usage, and best practices.
3. National Institute of Rural Development and Panchayati Raj (NIRDPR) should undertake training programmes and compile best practices for SFCs.

Budget Documentation

1. States should publish supplementary budget document detailing all transfers made to rural and urban local bodies including Gram Panchayat-wise allocations enabling transparency.

4.Way Forward

1. **Strengthen Data Infrastructure** - Invest in digital systems enabling automated data collection and reporting from Panchayats reducing errors and delays.
2. **Build Local Capacity** - Conduct systematic training for Gram Panchayat staff on accounting standards and digital tools ensuring data quality at source.
3. **Create Institutional Permanence** - Establish permanent SFC Cells preventing knowledge loss and ensuring continuity across five-year commission cycles.
4. **Leverage Technology** - Deploy platforms like eGramSwaraj and integrate with national spatial planning systems enabling real-time data access and analysis.

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