Syllabus subtopic: Functions and Responsibilities of the Union and the States, Issues and Challenges Pertaining to the Federal Structure, Devolution of Powers and Finances up to Local Levels and Challenges Therein.

Prelims and Mains focus: about the highlights of the assessment report; about NIPFP; about finance commission

News: The Union Territory of Puducherry was entitled to Rs.2,731 crore for the current fiscal from the Centre than the actual allocation of Rs.1,545 crore, according to an assessment report prepared by the National Institute of Public Finance and Policy (NIPFP), a Central government organisation.

Background
The assessment was done against the backdrop of Union Territories not coming under the purview of Finance Commission recommendations for devolution of funds.

What did the assessment report say?

- Central allocation to Puducherry is in the form of grants to meet gap in resources and financing the schemes. The Union Territory was eligible to get larger share of the revenue.

- Puducherry has a higher revenue collection compared to the Gross State Domestic Product (GSDP). It was higher than most States. It also runs a small revenue deficit and a fiscal deficit of less than 3%.

- The debt to GSDP ration has been around 3%. A considerable part of the deficit was met through open market borrowings. If the UT was part of the Finance Commission, the allocation would have been higher than the current allocation. In case the region was part of the 14th Finance Commission Recommendations, the exchequer would have been entitled to a sum of Rs.2,731 crore for 2019-20.
• Puducherry was eligible to get around Rs.1,186 crore extra during the current financial year and also more than a meagre sum of Rs.1,703 crore which was set aside for the region by the Centre for 2020-21.

• Disparity in allocation to Puducherry and New Delhi. While in the case of the national capital, the Centre incurred the expenditure for salary to the police and pension amount, no such favour was done to Puducherry.

Revenue shortfall in Puducherry

• Puducherry’s finances were expected to experience a revenue shock post-July 2022 when the Centre stops compensating for GST loss. Currently, the territory gets around Rs.150 crore as GST compensation bi-monthly.

• The transition to GST was detrimental to Puducherry’s revenue as the region was a manufacturing State. The addition of services under GST has failed to compensate for the revenue loss.

About NIPFP

• The National Institute of Public Finance and Policy (NIPFP) is a centre for research in public economics and policies.

• Founded in 1976, the institute undertakes research, policy advocacy and capacity building in areas related to public economics.

• One of the major mandates of the institute is to assist the Central, State and Local governments in formulating and reforming public policies by providing an analytical base.

• The institute was set up as an autonomous society, at the joint initiative of the Ministry of Finance, Planning Commission, several State governments and distinguished academicians. It is registered under the Societies Registration Act, 1860.
In its 44 years of existence, the institute has emerged as a premier think tank in India, and has made significant contribution to policy reforms at all levels of the government. It has maintained close functional links with the Central and State governments all along, and has built up linkages with other teaching and research institutions both in India and abroad.

Although the institute receives an annual grant from the Ministry of Finance, Government of India, and various State governments, it maintains an independent non-government character in its pursuit of research and policy.