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RESERVE BANK OF INDIA

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**RBI Releases Study on "Strengthening Decentralisation - Augmenting the Consolidated fund of the States by the Thirteenth Finance Commission: A Normative Approach"**

A Reserve Bank of India study, released today - "[Strengthening Decentralisation - Augmenting the Consolidated fund of the States by the Thirteenth Finance Commission: A Normative Approach](#)" relates to the terms of reference of the Thirteenth Finance Commission.

The authors of the Study Shri Abhay Pethe, University of Mumbai along with research staff members from the Reserve Bank (Shri B.M. Misra, Adviser, DEAP and Kum. Rakhe P.B., Research Officer, DEAP) opine that there is a need to fine tune the micro design of local body grants in view of the recent developments in the Central and State finances. The Study also emphasises that the criteria for the devolution of local body grants across the States need a revisit. The study was undertaken under the aegis of the Development Research Group of the Reserve Bank. In a nutshell, the Study makes the following suggestions:

- Provide Rs.94,451 crore as the local body grant.
- Set up an incentive fund of Rs.6,000 crore for assisting the local bodies to access capital market.
- Include a measure of decentralisation in the devolution formula for the share in central taxes.
- Keep the grants to local bodies unconditional.
- Ensure that the release of local body grants is evenly distributed over the fiscal year.
- Ensure that the State Governments are transferring the local body grants promptly and efficiently to the local Government level.
- Provide a uniform template to the SFCs.
- Incentivise the State Governments to set up a data warehouse for the local bodies.
- Set up a central pool of fiscal experts from which the State Governments may select at least one member of SFC.
- Provide a time line to the State Governments in link to the release of share in central taxes for making progress in the arena of SFC.
- Estimate the grants to local bodies on a normative basis.
- Till such time as the decentralisation truly takes root and SFCs are well established and recognised, talk directly to the local bodies (at the district level) and think of transferring resources directly to them.

[Note: Development Research Group (DRG) is constituted in the Reserve Bank's Department of Economic Analysis and Policy for undertaking effective policy-oriented research backed by strong analytical and empirical basis on subjects of current interests. The views expressed in these studies are those of the authors and do not reflect the views of the Reserve Bank.]

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