

**TWELFTH FINANCE COMMISSION**

**Authority**  
**Composition**  
**Terms of Reference**  
**Contact**

MINISTRY OF FINANCE AND COMPANY AFFAIRS  
(Department of Economic Affairs)

**NOTIFICATION**

New Delhi, 1st November, 2002.

1. - The following order made by the President is to be published for general information.

**ORDER**

In pursuance of the provisions of article 280 of the Constitution of India, and of the Finance (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President is pleased to constitute a Finance Commission consisting of Dr.C.Rangarajan, Governor of Andhra Pradesh, as the Chairman and the following three other members, namely: -

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|--|-----------------------|
| 1. Shri.Som Pal, Member, Planning Commission                                     | Member<br>(Part-Time) |
| 2. Shri.T.R.Prasad, IAS, (retd) former<br>Cabinet Secretary, Government of India | Member                |
| 3. Prof.D.K.Srivastava of the National Institute of<br>Public Finance and Policy | Member                |
| 4. Shri.G.C.Srivastava, IAS  | Secretary             |
2. Notification for the fourth member will be issued separately.
3. The Chairman and the other members of the Commission shall hold office from the date on which they respectively assume office upto the 31<sup>st</sup> day of July, 2004.
4. The Commission shall make recommendations as to the following matters :-

- (i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be divided between them under Chapter I Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
  - (ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisions to clause (1) of the article, and
  - (iii) 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.
5. The Commission shall review the state of the finances of the Union and the States and suggest a plan by which the Governments, collectively and severally, may bring about a restructuring of the public finances restoring budgetary balance, achieving macro economic stability and debt reduction along with equitable growth.
6. In making its recommendations, the Commission shall have regard, among other considerations, to :-
- (i) the resources, of the Central Government for five years commencing on 1st April 2005, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2003-04;
  - (ii) the demands on the resources of the Central Government, in particular, on account of expenditure on civil administration, defence, internal and border security, debt servicing and other committed expenditure and liabilities;
  - (iii) the resources of the State Governments, for the five years commencing on 1st April 2005, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2003-04;
  - (iv) the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Centre, but also generating surpluses for capital investment and reducing fiscal deficit;
  - (v) taxation efforts of the Central Government and each State Government as against targets, if any, and the potential for additional resources mobilisation in order to improve the tax-Gross Domestic Product (GDP) and tax-Gross State Domestic Product (GSDP) ratio, as the case may be;
  - (vi) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by the 31<sup>st</sup> March 2005 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;

- (vii) the need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings, public sector enterprises etc. in the States through various means including adjustment of user charges and relinquishing of non-priority enterprises through privatisation or disinvestment.
7. In making its recommendations on various matters , the Commission will take the basis of population figures as of 1971, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid.
  8. The Commission shall review the Fiscal Reform Facility introduced by the Central Government on the basis of the recommendations of the Eleventh Finance Commission, and suggest measures for effective achievement of its objectives.
  9. The Commission may, after making an assessment of the debt position of the States as on the 31<sup>st</sup> March 2004, suggest such corrective measures, as are deemed necessary, consistent with macro-economic stability and debt sustainability. Such measures recommended will give weightage to the performance of the States in the fields of human development and investment climate.
  10. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and make appropriate recommendations thereon.
  11. The Commission shall indicate the basis on which it has arrived at its findings and make available the State-wise estimates of receipts and expenditure.
  12. The Commission shall make its report available by the 31<sup>st</sup> July, 2004, covering a period of five years commencing on the 1st April, 2005.

New Delhi  
Dated the 1st November, 2002

Sd/-  
(Dr.A.P.J.ABDUL KALAM)  
PRESIDENT OF INDIA

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(No.10(13)-B(S)2002)

Sd/-  
(D.SWARUP)  
Additional Secretary (Budget)

No.10(123)-B(S)/2002

Dated the 8<sup>th</sup> November, 2002

Copy forwarded to :-

1. Dr.C.Rangarajan, Hon'ble Governor, Andhara Pradesh.
2. All Members of the Twelfth Finance Commission.
3. Cabinet Secretary.
4. Principal Secretary to Prime Minister.
5. All Ministries/Departments of the Government of India.
6. All Chief Secretaries of the State Governments.
7. Shri.G.C.Srivastava, Secretary, Twelfth Finance Commission.

Sd/-  
(D.SWARUP)  
(Additional Secretary (budget))

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