

# 16th Finance Commission: Mismatch in Urban-Rural Local Body Allocations

Issues were raised with the Centre over urban-rural definition flaws in the 16th Finance Commission local body fund allocations.

An issue regarding the Union Finance Commission's criteria for classifying rural and urban areas to allocate local body grants.

## KEY EXAM POINTS

- Flaws in rural-urban definitions led to disproportionately lower fund allocations to **rural local bodies**.
- The assessment framework of the **16th Union Finance Commission** created this allocation disparity.
- The **State government** officially contacted the **Central government** to address this classification issue.
- The funding mismatch primarily affects **Panchayati Raj Institutions** dependent on central grant transfers.
- A revised **assessment mechanism** is sought to reflect unique regional settlement patterns accurately.

## STATICS & SYLLABUS FOCUS

The **Union Finance Commission** is a constitutional body established under **Article 280** of the Indian Constitution.

The **16th Finance Commission** was constituted under the chairmanship of **Dr. Arvind Panagariya**.

**Article 280(3)(bb)** mandates measures to augment the State Consolidated Fund to supplement **Panchayat** resources.

**Article 280(3)(c)** mandates measures to augment the State Consolidated Fund to supplement **Municipality** resources.

The **73rd Constitutional Amendment Act 1992** added Part IX and **11th Schedule** containing 29 subjects for Panchayats.

The **74th Constitutional Amendment Act 1992** added Part IXA and **12th Schedule** containing 18 subjects for Municipalities.

**Article 243I** provides for the constitution of a **State Finance Commission** every 5 years to review local finances.

### REVISION FLASHCARD

*Article 280 governs the Union Finance Commission, which recommends local body grants under sub-clauses 3(bb) and 3(c).*

Syllabus Relevance: Covers Constitutional Bodies (Article 280), 16th Finance Commission, and Local Body Grants under 73rd and 74th Amendments.

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