

9.107 **In India, the market for municipal bonds is insignificant and the municipal bonds have played a limited role as a source of finance for funding urban infrastructure projects. We recommend that local bodies and States explore the issuance of municipal bonds as a source of finance with suitable support from the Union Government. The States may allow the larger municipal corporations to directly approach the markets while an intermediary could be set up to assist medium and small municipalities who may not have the capacity to access the markets directly.**

Excluded Areas

9.108 After detailed deliberations on the existing provisions in the Constitution and the ToR, we conclude that we cannot recommend grants to areas where Part IX and Part IX A do not apply, and also where the States have not enacted laws for establishing duly-elected panchayats and municipalities.

9.109 Areas under Schedule VI in Meghalaya, Mizoram, Tripura and Assam, the areas in the hill districts of Manipur, rural areas of Nagaland and Mizoram will remain outside the ambit of the measures we have recommended for panchayats and municipalities. However, we note the weight of the argument put before us by the concerned States that these areas are in pressing need of assistance. We note that the Constitution mandates the Union Government to play a direct role in supporting the development of these areas. However, going by the quantum of the assistance given over the years to these regions by the Ministries in Union Government, we note that the intervention of the Union Government under the proviso to Article 275(1) has been very limited.

9.110 **We urge the Union Government to consider a larger, sustained and more effective direct intervention for the upgradation of administration as well as development of the areas covered under the proviso to Article 275(1) and excluded from the consideration of Finance Commissions in the ToR, in order to bring such areas on par with other areas.**

Recommendations

- i. We recommend that the local bodies should be required to spend the grants only on the basic services within the functions assigned to them under relevant legislations. (para 9.56)
- ii. We recommend that the books of accounts prepared by the local bodies should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency functions assigned by the Union and State Governments. In addition to the above, we also recommend that the technical guidance and support arrangements by the C&AG should be continued and the States should take action to facilitate local bodies to compile accounts and have them audited in time. (para 9.61)
- iii. We recommend distribution of grants to the States using 2011 population data with weight of 90 per cent and area with weight of 10 per cent. The grant to each State will be divided into two - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of urban and rural population of that State using the data of Census 2011. (para 9.64)