

CHAPTER – 3

REVENUE TRANSFERS TO PANCHAYATS

The State government has been providing financial assistance to the panchayats, particularly to *Gram Panchayats*, in the form of revenue-sharing of State revenues and grants-in-aid for various purposes. In addition, the panchayats also receive a part of the funds transferred to them by the DRDAs for implementation of Centrally-sponsored schemes (CSS) and grants from a few State line departments for implementation of their schemes. Besides, they are also provided grants-in-aid under the Central Finance Commission awards. In fact, the shares of all forms of financial assistance being received by the panchayats at various levels constitute bulk of their aggregate resources without which the very existence of the panchayats grinds to a virtual halt.

3.1 Revenue -Sharing Through Assigned Revenues :

The State government has been transferring a part of their own resources to the panchayats in the following manner:

- 3.1.1 **Land Revenue** : The entire net land revenue is being transferred to the *Gram Panchayats* on the basis of collection as general purpose grant, in terms of the relevant statutory provision. The net proceeds of land revenue are first being credited to the District Panchayati Raj Fund constituted at the district level and administered by the District Collector before the revenue is released to the *Gram Panchayats*.
- 3.1.2 **Normal Land Cess**: In terms of Section 74 (I) of the Panchayati Raj Act, 1993, the State government is levying a cess on land revenue at the rate of Rs.0.50 per rupee of land revenue. The net proceeds of this land cess, like those of land revenue, are being transferred in the same manner to *Gram Panchayats*.
- 3.1.3 **Additional Stamp Duty**: Under Section 75 of the Panchayat Raj Act, 1993, the State government has increased the duty imposed under the Indian Stamp Act, 1899 on instruments relating to sale, gift or mortgage of immovable property situated in a Block, by one % on the value of such property or in the case of mortgage on the

amount secured by the instrument. This additional stamp duty of one % is collected by the State government along with the principal stamp duty, and the proceeds thereof are initially credited to the State government. A grant equivalent to the revenue from the additional stamp duty is subsequently paid to the **Janpad Panchayats** on the basis of collection.

- 3.1.4 **Surcharge on Sales Tax:** Although the Panchayati Raj Act, 1993 does not specifically mention levy of a surcharge on Sales tax and transfer of a part of its revenue to the panchayats, the State government has been transferring 30 % of the proceeds of the surcharge levied at 10 % on sales tax to the **Gram Panchayats**. This levy is in conformity with the recommendations of the *XI FC*.
- 3.1.5 **Royalty From Minor Minerals:** The State government is assigning a share in the royalty proceeds earned by it from exploitation of minor minerals to the **Gram Panchayats** and **Janpad Panchayats** in the ratio of 4:1 respectively on the basis of collection. *Table No. -3.1* show the quantum of revenue transferred to these panchayats by the government under this source.
- 3.1.6 Besides assigning to the panchayats a part of the State administered tax and non-tax proceeds, the government also performs the agency function of assessing and collecting the '**Development Tax on Agricultural Land**', '**Increased Land Cess**,' if at all, levied by the **Janpad Panchayats** and **Zila Panchayats** respectively, and transferring the proceeds to the panchayats in accordance with the statutory rules issued by the government.
- 3.1.7 To assess the total fund flow from all the revenue transfers to the panchayats outlined in the preceding paras, we are handicapped from making a quantitative analysis of each of these items for want of adequate statistical information. The government had provided to us the State-level numbers relating to release of three of these items only, namely, additional stamp duty, share in surcharge on stamp duty and royalty on minor minerals for the period 2001-02 to 2005-06. We have no access to the data pertaining to the revenue transfers to the panchayats from land revenue and normal land cess. We understand that the line department concerned at the State level does not have

these figures due, in the main, to the fact that transfer of these revenues are effected from the district-level itself. *We therefore, assume that the **Net Land Revenue and Normal Land Cess** is equivalent to 135 % of the gross land revenue realised by the State government (i.e., 100% land revenue plus 50 % of the land revenue as normal land cess minus 10 % towards collection costs).* Accordingly, we arrived at the quantum of statutory revenue transfers from these two sources. **Table No. 3.2** exhibits the assumed revenue from land revenue and land cess and the amounts transferred to the panchayats during 2001-02 to 2005-06.

3.1.8 **Table No. 3.4** shows the amounts assigned to the panchayats from specific sources of revenue of the State government. However, a summary of the said Table is provided hereunder in **Table No. 3.3**.

From **Table No. 3.4** it may be seen that, under the assumption that the State government had transferred the entire amount due to the panchayats in respect of **Land Revenue, Normal Land Cess**, and royalty on minerals, there is a shortfall of Rs.8.60 crore in releases under additional stamp duty (Rs.1 crore), and share in surcharge on sales tax (Rs.7.60 crore) during the period 2001-02 to 2005-06.

3.1.9 *We would now make the following recommendations so far as the revenue-sharing, other than the SFC devolution, with the Panchayats.*

- (1) At the outset, *we recommend that the State government may take necessary action in releasing the short-released amount of Rs.8.60 crore due to the Janpad and **Gram Panchayats**, in 2007-08 itself.*
- (2) In tune with our broad approach to fiscally empower all levels of panchayats in the State, we consider that, as transfer of title to immovable properties of private individuals and corporate bodies take place irrespective of any special service or intervention of the panchayats, the revenue accruing from the additional stamp duty should benefit all the three levels of panchayats in the State. Besides, there is need to increase the **additional stamp duty** from the existing 1% to 2%. *Accordingly, we make the following recommendations governing the additional stamp duty. **First**, the relevant*

*provisions of the Panchayati Raj Act (Sec. 75) as additional duty on stamp duty may be amended providing for an increase of 2 % in place of the existing 1%. **Second**, the scope of the stamp duty as well as the additional stamp duty is enlarged to cover also instruments of “**Exchange**” and “**Lease In Perpetuity Of Immovable Properties**”, as is the practice in States like Andhra Pradesh, Tamil Nadu, Kerala, etc. Third, the proceeds of the additional stamp duty be distributed to the **Gram Panchayats, Janpad Panchayats and Zila Panchayats** concerned in the ratio of 3:1:1 respectively. Finally, the revenue released from the additional stamp duty should not be credited to the Consolidated Fund of the State. Instead, the revenue should be credited to the panchayats concerned **every quarter by the relevant district authorities themselves so as to avoid delays in the revenue transfer.***

- (3) As for the land revenue and the various cesses/supplementary levies thereon in terms of the Panchayati Raj Act, it appears necessary to introduce only a single cess on land revenue. *The State government should continue levying the normal land cess not at 50 % but at 250 % of the land revenue, and the proceeds thereof, along with the land revenue, be credited to the **District Panchayat Raj Fund** concerned. We further recommend that the State government may consider crediting an amount equal to the land revenue collections to the District Panchayat Raj Fund as their matching contribution to the Fund.* In this connection, the State government may ensure that the provisions [Sec. 74 (2) and 77(3)] relating to the ‘**Development Tax On Agricultural Lands**’ be deleted from the statute book. Also we would like to emphasize that the State government should not unilaterally abolish or grant exemptions or remissions to land revenue and/or the compulsory cess thereon that affect the fortunes of the panchayats. *In all such cases, the State government should arrange for appropriate compensatory payments to the panchayats, which should be equal to the revenue loss incurred by the latter.*

- (4) *We recommend that the existing 30% in the proceeds from the **Surcharge On Sales Tax** being transferred to the **Gram Panchayats** be increased to 50% and the revenue thereof be distributed among the **Gram Panchayats, Janpad Panchayats** and **Zila Panchayats** in the ratio of 3:1:1 respectively on per capita basis. Alternatively, the State government may increase the **rate of surcharge** from its existing 10% to 15% and transfer 1/3 of the surcharge proceeds to the three levels of the panchayats in the ratio specified above.*
- (5) *The transfer of revenue from the **royalty on minor minerals** may however continue to be made to the **Janpad Panchayats** and **Gram Panchayats** concerned. However, we recommend that this revenue be shared between the **Gram Panchayats** and **Janpad Panchayats** in the ratio of 3:1.*
- (6) *In para 2.4.6 we had dwelt upon the existing '**Theatre Tax**' which is a mere "**Show / Exhibition Tax**". In addition to this flat rate tax, the State government is levying and collecting the entertainment tax on cinematographic exhibitions in the State. The tax yielded Rs.2.33 crore in 2004-05 and Rs.4.48 crore in 2005-06 (RE), and is expected to earn a revenue yield of Rs.4.92 crore in 2006-07 (BE) for the State government. Unlike in the southern States, the revenue from this tax constitutes a meager proportion of the State's own tax revenue, primarily due to very limited number of cine theatres in the State. In AP, 90 % of the revenue from this tax is transferred to urban and rural local government units. Tamil Nadu is no exception to this. Nevertheless, considering the meager fiscal importance of this tax in the State revenues, we recommend that 90 % of the gross proceeds of the entertainment tax levied on the "**price of admission**" to cinematographic exhibitions in both urban and rural areas of the State, be distributed to the **Municipal Institutions and Panchayats** in the ratio of 2:1 respectively. The share of the panchayats in the divisible pool may be transferred to the District Panchayat Raj Fund of the districts on the basis of rural population of the districts.*

- (7) At present, in conformity with the provisions in the PESE (extension on scheduled areas) Act 1996, it is necessary to share the proceeds of minor forest produce with the **Gram Panchayats**. According to section 33(3) of this Act. Total net profit should be given to cooperative societies after deducting the all expenses incurred on exploitation and trading of minor forest produce. The societies shall spend minimum 20% of profit on the reproduction of forests under supervision of forest department, at least 50 % of proceeds shall be distributed among the minor forest produce collectors in the proportion of their collection and balance amount should be utilized on the development of basic amenities in the villages or should be distributed among the Tendu leaves collectors as per their discretion. It is the opinion of Commission that since the basic responsibility of **Gram Panchayats** is to provide basic amenities to village people, hence balance amount of gross proceeds of the minor forest produce shall be transferred to **Gram Panchayats**, and *the amount shall be distributed among the Gram Panchayats* on the basis of population.
- (8) *We further recommend that at least 50% of the revenue being collected by the Agriculture Produce Marketing Federation (APMF) should be transferred to the Local Bodies. 80% of this revenue should be given to Rural Local Bodies and to be distributed among the Janpad Panchayats and Gram Panchayats in the ratio of 1:2 respectively, and inter-se distributed equally among these Panchayats. Remaining 20% of this revenue of APMF should be transferred to Urban Local Bodies and be distributed among Municipal Councils and Nagar Panchayats in the ration of 7:18 respectively and inter-se distributed equally among respective Urban Local Bodies. The Agricultural Produce Mandi Act should be amended accordingly.*
- (9) As suggested by us earlier, the revenue from land revenue and **normal land cess** should continue to be credited to the **District Panchayat Raj Fund**. However, we are not in favour of transferring this revenue to the panchayats directly. Instead, this Fund consisting of not only the proceeds of land

revenue and the cess thereon, and the share of panchayats in entertainment tax, but also of contributions from State government, NRIs, private individuals and corporate bodies, may be utilized for assisting the panchayats in undertaking remunerative enterprises which will be self-liquidating in nature, in the form of loan capital. This Fund should be made non-lapsable and can be administered by the District Collector in consultation with the CEO of the *Zila Panchayat* concerned.

3.1.10 The Commission recommends that the State government may arrange, besides releasing of Rs.8.60 crore (see Table No. 3.4) to the Janpad Panchayats and Gram Panchayats towards arrears in the transfers from additional stamp duty and the share in the surcharge on sales tax respectively in 2007-08 itself, arrears on account of any other item of transferable assigned revenue for the period 2001-02 to 2006-07 also be released to the panchayats.

3.1.11 We would like to summaries our recommendations relating to assigned revenues made in the preceding paras. *Table No. 3.5* provides the suggested scenario.

3.1.12 In this connection we have to point out that it is not possible for the Commission to make an estimate of the probable additional revenue that may accrue to the panchayats as a result of our recommendations relating to assigned revenues. Nevertheless, we would make three broad recommendations in this regard. *First, the State Panchayat Raj Act, 1993 may be amended in such a way that it provides for statutory transfer of the revenues to be assigned to the panchayats as per our recommendations. Second, these assigned revenues should not enter the divisible pool of the State's own tax and non-tax revenues, and hence they will be outside the purview of the global-sharing arrangement or devolutions under the SFC recommendations. Third, all revenue transfers in the form of assigned revenues with which we have dealt with in para 3.1.9 should be in the nature of 'untied' payments constituting the 'general or untied funds' of the panchayats at all levels. The panchayat concerned should have the freedom as regards the purposes for which these funds are to be applied though the government may stipulate that the panchayats concerned can incur an expenditure on salaries and wages of the staff employed by them upto 30 %, and on women and child welfare programmes in the panchayat upto a maximum of 20 %, of the total funds received from the assigned revenues in a year.*

3.2.0 Grants-In-Aid :

3.2.1 Role Of Grants In Panchayat Finances :

1. *Gram Panchayats* :

Apart from sharing the State revenue from *land revenue, normal land cess, royalty on minor minerals and surcharge on sales tax, Gram Panchayats* receive a variety of grants from the State and union governments. In fact, these institutions at the village level receive substantially larger quantum of resources for a variety of purposes than their counterparts in many other States in the country. In a sense, there is a phenomenal dependence of *Gram Panchayats* on external resources in the State since the internal resource mobilisation by them is extremely poor whose quantum constitutes a very insignificant proportion of their aggregate resources. There is a '*Dependency Syndrome*' engulfing these Panchayats which in the long run does not augur well for their sustenance.

Table No. 3.6 provides *summary of grants received* by our 2728 sample *Gram Panchayats* (SGPs) during 1999-2000 and 2003-04. On the basis of the 'numbers' that are exhibited in the Table, certain observations could be made which are narrated below:

- (i) The aggregate volume of resources received by the SGPs through assigned revenues and grants-in-aid from both the State and union governments during 1999-2000 and 2003-04 was of the order of Rs.53.29 crore and Rs.72.91 crore respectively. Since our sample is more a representative sample having covered the *Gram Panchayats* in all the 16 districts, and its size is being very significant, we can safely and reasonably project the sample data to the entire universe of 9820 *Gram Panchayats* in the State. Accordingly, as may be seen from *Table No. 3.7*, the aggregate quantum of external assistance to the 9820 *Gram Panchayats* during 2003-04 works out to Rs.262.45 crore, accounting for 93 % of the aggregate receipts of the *Gram Panchayats* in the state. In absolute terms, these external resources registered an increase of 37 % during the period.

- (ii) The assistance given to the SGPs under the dispensation of the '*SFC Devolution*' constituted 14.46 % and 13.17 % of the total quantum of external resources made available to them in 1999-2000 and 2003-04 respectively. In absolute terms, the grants offered under the '*SFC devolution*' rose from Rs.8.23 crore in 1999-2000 to Rs.10.32 crore in 2003-04, registering a 25% increase during the period.
- (iii) Among the individual components of the grants received by the SGPs, the '*special purpose/specific*' grants registered the highest percentage increase of about 170 % during the period. On the other hand, there was a steep decline in the amount of grant in lieu of land revenue paid to the SGPs. The available data shows that receipts from land revenue grant (which can be classified under '*assigned revenues*') fell from Rs.3.07 crore in 1999-2000 to Rs.0.78 crore in 2003-04. In terms of its relative share in the aggregate receipts of the SGPs, the percentage registered a downward trend from 5.40 in 1999-2000 to one in 2003-04.
- (iv) The grants under the '*Centrally and State-sponsored schemes*' received by the SGPs rose from Rs.26.43 crore in 1999-2000 to Rs.36.16 crore in 2003-04, registering a 37 % growth during the period. These grants accounted for as large as 46 % of the total grants received by the SGPs during the two select years.
- (v) During 2003-04, the *per capita grant* (2001 census) received by the sample *Gram Panchayats* in the state stood at Rs.158 as against their aggregate per capita receipts of Rs.170.

2 *Janpad Panchayats* :

An outline of the broad categories of the assigned revenues and grants-in-aid paid to the 146 *Janpad Panchayats* in the State may be seen from *Table No. 3.8*. It may be observed from the said Table that

- (i) The quantum of grants and assigned revenues paid to these intermediate panchayats substantially rose from Rs.110.75 crore in 1999-2000 to Rs.214 crore in 2003-04, their growth during the period being 93 %. This may be due

to the increased volume of grants being paid to these panchayats by the State line departments, increased inflow of resources to them under the assigned revenues like additional duty on stamp duty and royalty from minor minerals, and the ever-increasing volume of fund flow under the Centrally-sponsored schemes. Nevertheless, the absolute figures of grants-in-aid to these institutions have to be discounted by a small margin as the data includes the funds or grants that are to be further transferred to **Gram Panchayats** by the **Janpad Panchayats**. Nevertheless, the fact remains that these institutions are dependent, like their counterparts in most of the other States in the country, on state-aid to the extent of 95 % to 99 %. In our State, their dependence is to the extent of 99 %. Their exclusive dependence on state-aid is attributable to the tendency of the State governments to reduce these institutions to the status of mere 'implementing agencies' like some of their other 'spending departments'. We, in India, committed to the three-tier structure of Panchayati Raj, have not explored several available options to endow these intermediate (as well as the district level) panchayats with appropriate revenue-raising powers. In several States, in India, the distribution of responsibilities, duties and revenue powers is highly skewed in favour of **Gram Panchayats** alone which in most States are administratively and technically unviable units for implementing many extra-local schemes. The Commission therefore urges the State government to explore all possible avenues of resource mobilisation by the intermediate and **Zila Panchayats** in the State. We have however endeavoured to ensure that these middle and apex units of rural local government are equipped with greater access to certain revenue sources for their own use.

- (ii) Among the grants paid to the **Janpad Panchayats**, grants for 'agency functions' which represent grants for the implementation of the schemes of State line departments and State/Centrally-sponsored schemes, claimed a 2/3 share in the total quantum of grants received by them. Besides, their absolute size was also doubled, having risen from Rs.71.85 crore in 1999-2000 to Rs.143.65 crore in 2003-04.

- (iii) Receipts from assigned revenues like the proceeds from *additional duty on stamp duty* and a 20% share in *royalty from minor minerals* have more than doubled during this period. They rose from Rs.3.38 crore in 1999-2000 to Rs.7.18 crore in 2003-04 registering an increase of 113 % over the period.
- (iv) The per capita grant received by the *Janpad Panchayats* in 2003-04 was about Rs.129, against their per capita aggregate receipts of Rs.130.
- (v) *Janpad Panchayats* in the State have not been provided with any share in the SFC devolution grants till 2006-07.

3. Zila Panchayats :

With the probable exception of *Zila Panchayats* in **Uttar Pradesh** and **Uttaranchal**, in all other States in the country, these district-level panchayats continue to exclusively depend on state-aid for their very existence. Our State however is not an exception to this general trend. Their dependence on State and Central funds in our State is almost cent per cent. From *Table No. 3.9* it may be seen that

- (i) the total quantum of resource transfers to the *Zila Panchayats* which stood at Rs.356.94 crore in 2001-02 had risen to Rs.394.91 crore in 2003-04, a mere increase of about 11 % over the period under review. In fact, the total grants paid to these apex-level panchayats in 2002-03 were Rs.396.14 crore which is virtually frozen at that level for 2003-04.
- (ii) Like the *Janpad Panchayats*, among the various broad components of the grants to these panchayats, grants for '*agency functions*' claimed the largest share of 74 % in their aggregate quantum of grants received by them in 2003-04.
- (iii) The *per capita grant* received by the *Zila Panchayats* works out to Rs.237 in 2003-04 in the State.
- (iv) The share of *Zila Panchayats* in the '*SFC Devolution*' accounts for a nominal 2 % of their aggregate quantum of grants received in 2003-04.

4. Before concluding the review of the vital importance of grants-in-aid in the overall receipts of the panchayats at different levels in the State, we should reiterate that the existing accounting systems and procedures being followed by these three levels of panchayats is far from satisfactory. There are data gaps, misclassifications, double-accounting of the receipt of certain grants routed through different levels of panchayats before they reach the ultimate user-panchayats, and above all, lack of seriousness among the panchayats in supplying reliable, disaggregated and adequate database on the status of their finances, to the Commission. To put it a little bluntly, the Commission considers the `reported' figures relating to the receipts and expenditure of various levels of panchayats in the State purely 'provisional' and indicative in nature. Nevertheless, these reported figures, in our view, would provide at least a crude idea about some important facets of panchayat finances in our State. Against this backdrop, we are convinced that there must be a mechanism at the State level to regularly collect and collate the data on panchayat finances. This problem of paucity of reliable and disaggregated information on the finances of panchayats in several States proved to be a handicap also to the XI and XII *Central Finance Commissions*. To correct this deplorable state of affairs, we are constrained to suggest a separate M&E Cell in the Directorate of Panchayats, the details of which can be seen in *para 3.2.4.(10)(II)*
5. The Commission had exploited several sources of information at the State level to elicit the macro-level statistical data relating to the total magnitude of resource flow to the panchayats at various levels in the State for the period 2001-02 to 2005-06, in the form of assigned revenues and grants. We should admit that we have succeeded in our attempt rather partially. This information, to the extent of its availability was duly edited, classified and tabulated by us which may be seen from *Table No. 3.10*. Before we proceed further, we have to point out that while the data are available to a large extent for the period 2001-02 to 2003-04, the tabulated statement referred to above is deficient of information relating to some items of revenue transfers to the panchayats for the years 2004-05 and 2005-06.

From *Table No. 3.10*, it may be seen that the total assistance given to the panchayats in the State in the form of assigned revenues, SFC devolution, grants from State panchayat department and other line departments, and the Central

assistance in the form of grants for Centrally-sponsored schemes, and Central Finance Commission awards, was Rs.506.52 crore in 2001-02 which however declined to Rs.498.83 crore in 2003-04 due, in the main, to the belated release of the 2nd installment grant of the XI FC for Rs.2003-04 (a little over Rs.22 crore) in 2004-05. As for the SFC devolution on panchayats, it however rose from mere Rs.42.69 crore in 2001-02 to Rs.83.76 crore in 2004-05. Similarly, the quantum of revenue transferred to the panchayats in the form of assigned revenues also shot up from Rs.32.52 crore in 2001-02 to Rs.52.83 crore in 2004-05. One of the most important Central grants for panchayats, viz., 12th Finance Commission grant of the order of Rs.123 crores per annum, is likely to further increase the size of the kitty of panchayats from 2005-06 onwards.

3.2.2 SFC Devolution Till 2006-07 :

At the time of creation of Chhattisgarh as a separate State on November 1st 2000, the composite MP government was implementing their first SFC recommendations. The report of their second SFC which was appointed on June 17, 1999 was then not available to the government. The new Chhattisgarh government had faithfully adopted the practice which was prevalent in the composite State since its creation, as a transitory measure. Implementation of the first SFC recommendations of MP is being continued since 2001-02 till to date. We believe that the State government would give effect to the recommendations of our first SFC of the State with effect from 2007-08.

In conformity with the MP First SFC recommendations, the State government has decided to transfer 2.91 % of the State's own gross tax and non-tax revenues, in addition to the statutory revenue transfers to the panchayats in the form of assigned revenues which were dealt with by us in the previous paragraphs.

1. Despite mounting pressures on the State exchequer, particularly in view of the infant nature of the State, the government has been making earnest efforts to see that transfer of the targeted 2.91 % of its own gross tax and non-tax revenue is transferred to the panchayats gradually during the last 6 years. No doubt, during the last 3 years in particular, the amount transferred to the panchayats on this account has exhibited an upward trend, as may be seen from **Table No. 3.11**.

The Table shows that the quantum of grants released to the panchayats rose from Rs.42.69 crore in 2001-02 to Rs.99.18 crore in 2005-06, a quantum jump of over 100 % over the period. Again, as large as 93 % of the total devolution accrued to **Gram Panchayats** for basic services, the balance being the share of the **Zila Panchayats**. Again, according to our information, a part of the grants released to the **Zila Panchayats** is further transferred by the latter to the Janpad and **Gram Panchayats** towards honorarium and other payments to their official and non-official functionaries.

2. **Table No. 3.12** shows that, as a *proportion of State's total revenue receipts, the transfer of grants under the SFC dispensation* had risen from 0.98 % in 2001-02 to 1.26 % in 2005-06. From **Table No. 3.13** it may be seen that the quantum of these *grants released to the panchayats constituted* 1.572 % in 2001-02 and 2.134 % in 2005-06 of the *gross tax and non-tax revenue of the State government*. In other words, despite an impressive upward rise, the share of panchayats in the State's own tax and non-tax revenue during the specified five year period has not reached the targeted level of 2.91 %.
3. An attempt is made by us to work out the extent of revenue gap between the targeted 2.91 % of the State's own tax and non-tax revenues and the amount of grants actually released to the panchayats against this targeted share. It may be observed from **Table No. 3.14** that *over the five year period of 2001-02 to 2005-06, the short release of grants under the SFC dispensation was as large as Rs.213.41 crore*. In other words, this short release accounted for 39.47 % of the total quantum of SFC grants to be released to the panchayats over the five year period of 2001-02 to 2005-06. *Our Commission however refrains from making any recommendation for the release and payment of these 'arrear' grants to the panchayats, taking into account the limitations on the State exchequer to provide these funds of a substantial magnitude. Nevertheless, the Commission hopes that from 2007-08, the State government would invariably adhere to our recommendations relating to SFC Devolution and assigned revenues that were found acceptable by them, and regularly and fully release the funds thereof to the panchayats.*

3.2.3 Our Recommendations On Devolution :

A. Grants For Establishment :

1. Posts Of Regular Gram Panchayat Secretaries :

At present, for the rural population of 166.48 lakh which accounts for about 80 % of the total population of the State, 9820 *Gram Panchayats* have been functioning as the bottom layer of rural local government at the village level . This includes about 700 *Gram Panchayats* which have been added to their number during the last 3 years. The average population served by a **Gram Panchayat** in the State is 1695, although there are inter-district variations in this number. For eg., the average size of a *Gram Panchayat* in terms of population among the districts varies between 1456 (Kawardha) and 2014 (Janjgeer-Champa). Although there would be a genuine need for the establishment of relatively more number of *Gram Panchayats* in a State which has a substantial tribal population most of whom live in small but scattered habitations in the Schedule -V areas, it appears that multiplying the total number of *Gram Panchayats*, regardless of their administrative and financial viability, would lead to problems of increased costs of administration, control and supervision over their functioning, deployment of additional staff support, narrower resource base, effective delivery of services, etc,. In fact technical, administrative and financial viability of a local government unit is significantly conditioned by spatial and demographic profiles of the unit.

- (i) The Commission is of the view that dispensing with the system of providing each *Gram Panchayat* of the benefit of secretarial support from a regular employee of the Panchayat Department appears to be a retrograde step. Apart from 'gerrymandering' of the *Gram Panchayats* by reducing the average population served by them through multiplication of their total number, declaring the cadre of regular panchayat secretary a 'dying cadre', and granting to the *Gram Panchayat* the power to pick and choose a person with a minimum educational qualification of 10+2 from their villages, purely on a contract basis on payment of a paltry consolidated monthly payment of

Rs. 1500, to act as the secretary (Panchayat Karmi) of the ***Gram Panchayat*** concerned is a measure in the wrong direction carrying with it long-term implications.

- (ii) Against the backdrop, infusions of increased volume of State and Central resources under the dispensations of the SFC devolution, assigned revenues, State and Centrally-sponsored rural development schemes, Central Finance Commission awards, etc., the need to exercise strict vigilance and monitoring over the resource use of the ***Gram Panchayats*** to ensure that the scarce resources mobilized from the general tax payers are prudently and fully utilized by them at the village level for purposes for which they are meant, is indisputably urgent and great. Besides, for the substantial money flow from external sources to the ***Gram Panchayats***, the fundamental principles of transparency and accountability in their financial management need to be invariably fulfilled. It is however doubtful whether the existing *ad hoc* staffing pattern at the ***Gram Panchayat*** level is capable of conforming to the sound principle of efficiency and economy in the use of their available resources for lawful and prescribed purposes.
- (iii) At present, there are about 7550 Panchayat Karmis employed by and working as 'secretary' of ***Gram Panchayats*** in the State. Thanks the declaration of the cadre of regular government panchayat secretary as 'dying cadre', only around 2200 regular government employees of the Panchayat Department still continue to serve the ***Gram Panchayats***. Their clan is likely to dwindle in numbers within the next few years due to their superannuation and other unexpected factors.
- (iv) The Commission notes that, consequent on the 73rd Constitutional Amendment Act coming into force over a decade ago, a minimum of around 50 % of the offices of Sarpanch of ***Gram Panchayats*** have been held by the marginalized sections of the rural society like the SCs, STs and women in the country. Many of these, besides being first timers to the political public office of Sarpanch, are illiterate or semi-literate. They need not only training

for capability-building but also day-to-day guidance regarding the 'dos and don'ts' of regular panchayat administration from the secretary of the **Gram Panchayat** who is supposed to possess adequate and updated knowledge of the provisions of the Panchayat Act, executive rules and government orders issued by the State government, proper maintenance of relevant registers and accounts and other documents. In normal course a regular government employee belonging to the cadre of panchayat secretary is believed to possess the requisite knowledge and skills in panchayat administration, besides being accountable to the State government for his actions or inactions or use of public funds.

(v) The Commission further notes that a **Gram Panchayat** in the State regardless of its size and ability has been empowered each with an estimated cost of a maximum of Rs. 5 lakh, and that for drawing cheques for withdrawal of its funds, a system of joint signatures of both Sarpanch and Panchayat secretary on the cheques is in vogue in the State. These, we believe, will have long-term repercussions in the existing scenario of Panchayat Karmis acting as secretary to as many as 7550 **Gram Panchayats** which account for about 77 % of the total number of **Gram Panchayats** in the State. Even periodic training for a couple of days on panchayat administration for these low-paid contractual employees of **Gram Panchayats** does not seem to equip them with the necessary knowledge and skills in their jobs.

(vi) Against the backdrop of the considerations and concerns pointed out by us in the preceding paras, the Commission is skeptical about the efficiency of the existing system of entrusting the task of day-to-day administration of the **Gram Panchayats** to the Panchayat Karmis, though working under the overall control and guidance of the political chief of the **Gram Panchayat** at the village level. The Commission further understands that in no other State, perhaps with the exception of MP, a person employed, purely on a contractual basis, by a **Gram Panchayat** acts as its secretary in an official capacity. At best, **Gram Panchayats** have been empowered to employ a

clerk-cum-bill collector and class-IV employees like sweepers, watchman, peon, etc. ,on a contract basis at a fixed consolidated monthly salary or remuneration. Similarly, in no other State, to the knowledge of the Commission, a panchayat employee, appointed purely on temporary basis on a fixed monthly salary of Rs.1500 is empowered to be a co-signatory on a cheque of the **Gram Panchayat** for the withdrawal of moneys, sometimes of the order of several thousands, if not lakhs of rupees, from the banks or treasury. The Commission feels it necessary to make its observations on this issue and also to suggest a few measures to streamline the **Gram Panchayat** secretariat in out State. Obviously, the larger issue of Panchayat Karmis cannot escape the attention of the Commission in view of its possible long term adverse implications on the financial prudence and discipline in the utilization of public funds at the grass-root level.

- (vii) Although there is a need in our State to prune the total number of **Gram Panchayats** in order to make them administratively and financially viable units, it is not possible to ensure it till the next panchayat elections. *Nevertheless, the State government in their own interests as well as in the larger context of democratic decentralisation, can stop further additions to the existing number of **Gram Panchayats** and initiate action to reorganise two or three existing contiguous small **Gram Panchayats** into one on a minimum population basis of 3000 per **Gram Panchayat**, subject however, to the relaxation of this figure in special and deserving cases on valid grounds. In the meantime, the State government may initiate action to rationalize the existing system of appointing the **Gram Panchayat** secretary on the lines suggested hereunder.*
- (viii) Of the 9820 **Gram Panchayats** in the State, 80 % have a population not exceeding 2000. And again, 76 of the total number of **Gram Panchayats** in the State have a population ranging from 1001 to 2000. Assuming that a regular government employee of the cadre of a **Gram Panchayat** Secretary can be appointed to take care of the administrative needs of two or three contiguous **Gram Panchayats** whose combined population, on an

average, is around 3000, the total number of such 'Group **Gram Panchayat Secretary**' posts would be 5570. At present, the State has about 2270 regular government employees working as secretaries of **Gram Panchayats**. We will then have a shortage of 3300 in the cadre of regular government panchayat secretary. The task of the government will therefore be exploring the manner of meeting this shortage.

2. **Gram Panchayat Clerks/ Assistants :**

The Commission, in their wisdom, is of the view that instead of dispensing with the services of the existing Panchayat Karmis, which is likely to assume the form of a 'pressure group' for regularization of their services in view of their growing number, the existing shortage of 3300 posts of **Gram Panchayat Secretary** can be filled by the State Public Service Commission through a competitive examination on matters relating to Panchayati Raj with particular reference to **Gram Panchayat** administration. In other words, the State government should notify that the cadre of '**Gram Panchayat Secretary**' is revived and is no more a 'dying cadre' but retained as an active cadre. Also it is necessary for the government to ensure that 50 % of these posts are reserved for the existing Panchayat Karmis. If at least 50 % of the existing Panchayat Karmis found suitable for the job stand a chance of getting qualified to be appointed as regular **Gram Panchayat Secretaries**, the balance of 6100 Panchayat Karmis could be retained as '**Panchayat Assistants**' to assist the **Gram Panchayat** secretary on a monthly consolidated fee of Rs.2000. They however, stand as a chance of becoming regular **Panchayat Secretary** as and when there are vacancies to be filled by the State Public Service Commission in future. In their case, if necessary, the State government may relax the prescribed educational qualification and age limits (a graduate degree) and a maximum age of 35 years.

The initial additional financial commitment on the salaries and allowances of 3300 posts of panchayat secretaries is estimated be about Rs.40 crore in 2005-06 approximately (assuming that the monthly salary and allowances of a panchayat secretary would be Rs.10,000 in 2005-06). This figure may have to be

increased by 10 % each year from 2006-07 onwards. In addition, there is need for a clerk/assistant in every **Gram Panchayat** to assist its secretary. There is however, no need to have a regular government employee for this post. While the unabsorbed Panchayat Karmis numbering 6100 continue to work as Panchayat Clerks / Assistants in their respective **Gram Panchayats**, a Block-level Selection Committee for the selection of the additional 3720 posts of these Assistants/Clerks with a minimum educational qualification of 10+2, can be constituted. The post of the panchayat Assistant / Clerk would be contractual for a period of two years, renewable, if necessary. for another two years. Like the Panchayat Karmis, these new recruits can be offered a consolidated monthly fee of Rs.2000 each. The additional commitment for the State government on this account would have been around Rs.9 crore per annum in 2005-06. This may be increased by 10% each year. The combined net additional commitment for the State government for the recruitment of additional Panchayat Secretaries, and payment of fee to the Panchayat Assistants/Clerks might have been of the order of Rs.64 crores in 2005-06 as shown below:

Item	Estimated Cost For 2005 -06 (Rs. In Lakh)
Pay And Allowances Of 3300 Posts Of Panchayat Secretary @ Rs.10000 P.M	3960
Consolidated Monthly Fee/Salary To 9820 Panchayat Clerks @ Rs.2000 P.M.	2357
Increase In Monthly Fee/Salary To 6100 Panchayat Karmis @ Rs.500 P.M.	366
<u>Deduct:</u> Monthly Salary Being Paid To 1650 Panchayat Karmis Appointed As Regular Panchayat Secretaries @ Rs.1500 P.M.	-297
Total	Rs. 6386 Lakh

3. Grants For Honoraria, Allowances And Other Facilities To Elected Functionaries Of Panchayats :

During the five-year period of 2001-02 to 2005-06, we understand that the State government had sanctioned, on an average, Rs.3.39 crore per year to the panchayats towards honoraria, sitting fee, travel allowance and other facilities to their elected functionaries. In fact, in view of the inflationary price-rise and the need to fix the honorarium to the elected leaders of the panchayats at a more reasonable levels, *the commission recommends that the existing rates of honorarium payments to the Chairpersons and Vice-chairpersons of the panchayats at all levels be increased by 10 % each year of their tenure in office.* Besides, the State government may also increase the district allocations of this grant by 10 % each year. To start with, for the fiscal year of 2007-08, the Commission recommends that a total grant of Rs.7 crore to cover all the costs of honorarium, sitting allowance and other facilities to the elected chiefs of panchayats in the State, be released to the CEOs of the *Zila Panchayats* which may be increased by 10 % each year.

B. Committed Expenditure To Continue :

The Commission further recommends that all committed expenditure of the State government in relation to the panchayats in the state be continued as usual.

C. Agency Grant To Panchayats :

The Commission is of the view that, in the fitness of things, the panchayats should be entitled to an 'agency' grant equivalent to a minimum of *3 % of the estimated cost of the scheme of the government line departments including the schemes under specific Centrally-sponsored programmes, towards their administration costs.* The line departments, before entrusting their schemes to the panchayats for implementation, may add 3 % to the estimated costs of their schemes and the funds thereof be released to the panchayats.

D. *Basic Services Grants To Gram Panchayats And General Purpose Grants To Janpad And Zila Panchayats :*

(1) Needless to point out, provision of certain basic or core services to the rural people is usually considered to be a priority area of the State and local government units. The overall quality of life of the people in the rural area is significantly conditioned by the extent to which reasonable standards of basic services are made accessible to them. Basic civic services such as provision of safe drinking water, lighting of streets and other public places, sanitation and drainage, primary health care and all-weather road connectivity are considered to be the '*first order*' services of a civic nature which are expected to be provided by the panchayats in the rural areas. The '*second order*' services consist of public distribution of food grains to the rural poor, medical facilities, primary education, connectivity to markets and other villages, veterinary aid, welfare of the handicapped and destitutes, housing for the houseless poor, access to irrigation sources, etc. So far as the Indian rural government units are concerned, their narrow resource base does not enable them to provide even the 'first order' services of civic nature from out of their own resource mobilisation from local people. Obviously, considering the phenomenal quantum of resources required to ensure provision of all the basic services to all villages in the country demands substantial investments by the higher levels of government over a period of time. During the last fifty years, both the Union and State governments have been investing several lakhs of crores of rupees in the Indian rural sector with a view to providing a minimum core of basic services to the people. Despite all their earnest efforts, there are still grey areas in the rural sector calling for both capital and O & M expenditures of a large magnitude.

(2) At least a minimum standard that need to be provided to the rural people in all the villages through the institutional framework of the panchayats, several existing community assets are languishing in the rural areas for

want of proper and regular maintenance. While the capital cost of providing even the '*first order*' basic services to the rural people has, of necessity, to be met by the higher levels of government, local government units which are close to the people should be required to maintain their existing assets on a regular basis. This does not however imply that these units should not be charged with implementing the schemes in the sphere of basic services. They can be entrusted with the task of such implementation provided the nature and size of the schemes are within the technical and administrative competence of these units. In all such cases, these lower levels of government at the local level need to be provided with adequate financial resources by the higher levels of government.

(3) In a State like Chhattisgarh with predominant tribal population living in scattered settlements/habitations, the resource base that can be exploited by the panchayats for meeting the O & M costs of the basic services is strictly very narrow. Even information on the present status of these services in the villages is scanty. Our Commission, despite all their earnest efforts, could not access reliable and adequate information from the panchayats in our State on the present status of their access to safe drinking water, environmental sanitation, including drainage, electric power for lighting the streets and other public places, primary health care facilities, road connectivity as well as on the financial requirement for their O&M expenditure. In fact, we understand that in most of the States, such basic information, updated each year, and are not readily available even at the district level, not to speak of the State level. This lacuna is reported by the SFCs of several States as well as the XIth and XIIth Central Finance Commissions.

(4) However, on the basis of the inadequate, if not strictly reliable, information furnished to the Commission by our 2728 sample *Gram Panchayats*, the following details are available:

Sl. No.	Basic Service	Available	
		No. of SGPs	% in Total SGPs
a)	Drinking Water Scheme	1707	62.57
b)	Drainage System	522	19.13
c)	Road Cleaning / Sweeping	1150	42.16
d)	Street Lighting	1748	64.08
e)	Community / Public Toilets	339	12.43
f)	Primary Schools With Own Buildings	3753*	61.29

Note - * Total No. of primary schools in selected 2728 GPs are 6123.

Moreover, in response to our request to quantify their requirement of additional resources in monetary terms for the capital and O&M needs of various basic/core civic services, the following information was made available to the Commission by these *Sample Gram Panchayats*.

Service		Estimated Amount Required By The SGPs (Rescore)		
		Capital	Maintenance Of Present Services	Maintenance Of Basic Services
a)	Lighting	116.19	88.97	407.33
b)	Sanitation and Drainage	209.48		
c)	Roads	81.92		
Total		407.59	88.97	407.33

The Commission, however, is of the view that the information culled out from the filled-in questionnaires of the sample ***Gram Panchayats*** does not serve any meaningful purpose due to its inadequacy and unreliability. This rendered the task of estimating the requirement of the ***Gram Panchayats*** for their O&M expenses in relation to the select basic services. This lacuna in the information system is a sad reflection on the inadequate M&E efforts of the line departments of the government concerned. Nonetheless, we believe that this situation should not be allowed to remain unattended for long. Unless the vital information on the present status of basic civic services in the rural areas, and the approximate financial requirement under capital as well as O&M accounts to meet the deficit, is regularly collected, collated and monitored, it becomes extremely difficult to assess the aggregate financial requirement of the panchayats for the O&M expenses of their existing and new assets.

- (5) The Commission, therefore, recommends to the State government that an Expert Committee be constituted with subject-experts and heads of relevant government departments as its members to make estimates, on a normative basis, on the physical and financial requirements of each basic/core civic service expected to be provided by the panchayats to the rural people in the State. Such a Committee, adopting a normative approach, may be required to assess the capital and O&M requirements of select but basic civic services separately in both physical and monetary terms, and the timeframe within which the estimated net requirement could be met. Such a Committee may be asked to submit its report within one year as this vital information may be required by the XIIIth Finance Commission for assessment of the needs of panchayats *vis-à-vis* their maintenance expenditure on basic civic services.
- (6) The Commission, taking a realistic view of the existing state of affairs and the imperative need to provide financial support to the panchayats for the

basic civic services expected to be delivered of them, considers that the State government should provide grants, though *ad hoc* in nature, to the panchayats for the provision and maintenance of specified basic services. In this connection, it should be recalled that some support was already suggested by us for the O&M expenditure of the **Gram Panchayats** from out of the XIIth Finance Commission grants being received by the State. To ensure that the grants to be paid to the panchayats at different levels in the State are purposefully and properly utilised, there is need to have a mechanism at the district level to assess the gaps in the availability of basic services in different panchayats in each district, and to estimate the requirement of different services in the **Gram Panchayats** therein. For instance, a district with a relatively poor coverage of safe drinking water facilities in its rural area should be given the freedom to apply more resources to this service. Similarly, a district which has relatively a meagre coverage of sanitation and drainage facility in its rural area should be able to earmark more funds to minimise this shortage. A simple and outright transfer of the entire grant for basic services on per capita basis to all **Gram Panchayats** would not fulfill the principle of equalisation of service standards in different localities.

(7) Viewed In This Light, The Commission Makes The Following Recommendations:

- i) ***Per capita*** grants calculated at Rs.90 for the **Gram Panchayats** for basic services, at Rs.8 for the **Janpad Panchayats** and at Rs.2 for the **Zila Panchayats** as general purpose grants, may be given. This, in absolute terms, works out to a total of Rs.149.83 crore for the **Gram Panchayats**, Rs.13.32 crore for the Janpad panchayats, and Rs.3.33 crore for the **Zila Panchayats**. In other words, we recommend that for all the three levels of panchayats in the State, a per capita grant of Rs.100 be given.

- ii) The resultant total amount of Rs.166.48 crore may be distributed among the districts on the following basis which were recommended by us also for the inter-district allocation of the XIIth Finance Commission grant [see para 3.2.4 (10) (vii)].
- a) 60% on rural population
 - b) 20% on rural area
 - c) 10% on SC/ST population
 - d) 10% on per capita IRM of **Gram Panchayats**.
- iii) **Table No. 3.15** shows the district-wise percentage shares of the grant recommended by us. *We recommend that the weights accorded to the four selected indices for the district allocations under SFC devolution and the XIIth Finance Commission grant and our dispensations be the same.*
- iv) The allocated share of each district may be divided among the **Gram Panchayat, Janpad Panchayats and the Zila Panchayats** in each district in the ratio of 90:8:2 respectively.
- v) The share of individual **Gram Panchayats, Janpad Panchayats** and **Zila Panchayat** may be allocated at a per capita rate of Rs.90 to the **Gram Panchayats**, Rs.8 to the **Janpad Panchayats** and Rs.2 to the **Zila Panchayats** concerned.
- vi) The shares of individual **Janpad Panchayats** and the **Zila Panchayat** may be released in the form of 'general purpose / untied' block grants to the concerned. This grant is to be used by these panchayats to meet the costs of salaries and terminal benefits of their own employees, maintenance and administrative expenses of their offices and assets, etc.
- vii) As regards the **Gram Panchayats'** share in the total district allocation, the entire grant should be earmarked exclusively to basic civic services, under capital as well as O&M accounts. The

CEO of the *Zila Panchayat* may distribute 75 % of the divisible pool of the *Gram Panchayats'* grant among the individual *Gram Panchayats* on the basis of their population, area and combined population of SCs and STs in the ratio of 50:20:5 respectively. The District Basic Needs Committee suggested by us earlier for the distribution of the 12th Finance Commission grant may identify two or three specific basic civic services which, on priority basis, need to be given additional financial support from the balance (25%) of the *Gram Panchayats'* share in the district allocation. *Gram Panchayats* which do not have access to these 'prioritised' services may be sanctioned specific grants for such services with reference to their respective revenue requirement, by the Committee.

e) **The Total Package Of Our Suggested SFC Devolution :**

- (1) The final scenario governing our devolution package to panchayats operative for a period of 5 years from 2007-08, other than the assigned revenues, grants from the government towards committed expenditure, line department grants, Central and State-sponsored schematic grants and CFC grants, that emerged from out of our recommendations may be seen from *Table No. 3.15*.
- (2) The Commission recommends a total devolution of grants-in-aid of the order of Rs.238.29 crore for the year 2005-06. The total net own tax revenue of the State was Rs.2905.083 crore in 2004-05 (A/cs), and Rs.3595.31 crore in 2005-06 (*SFC Projection*). As a proportion of State's own net tax revenue for 2004-05 (A/cs), our suggested devolution of Rs.238.29 crores for the panchayats works out to 8.20 %. If we work out this percentage as a proportion of *State's own net tax revenue* for 2005-06 (*SFC Projection*), the figure stands at 6.628%. We consider this figure of 6.628 % would be more in tune with reality. ***Hence, we recommend that the State government may earmark 6.628 % of its net tax revenue of 2005-06 for being transferred to the***

panchayats each year. Appropriate adjustments in the absolute quantum of revenue that is to be earmarked to '*SFC Devolution to Panchayats*' could be made once the actual figures are available from 2005-06. In fact, as the economy of Chhattisgarh is on the growth path, we consider that the suggested *percentage share of 6.628 % in State's net Own Tax Revenue* for Panchayats would gradually increase, in absolute terms, from its Rs.238.29 crore in 2005-06 to higher levels in the subsequent years during which our SFC recommendations are put in operation. Absolute increase in the total volume of our *SFC devolution*, calculated at *6.628 %* of the State's own net tax revenue of 2005-06 (*SFC Projection*) in the next few years may therefore be proportionately allocated to the districts in the same manner in which we recommended inter-district allocation for 2005-06.

3.2.4 Central Finance Commission Grants :

A new sub-clause in Clause (3) of Art. 280 were added by the 73rd Amendment Act in the Indian Constitution. Accordingly, the Finance Commission appointed under Art. 280 are required to make recommendations to the President of India on "the measures needed to augment the resources of the panchayats in the State on the basis of the recommendations made by the Finance Commission of the State".

- (1) The Xth Finance Commission recommended an *ad hoc* grant of Rs.4380.93 crore for the panchayats in the country for the four-year period of 1996-97 to 1999-2000 to be released to the States in equal annual installments. However, due to lack of data on panchayat finances, the Commission calculated the grant for the panchayats on the basis of Rs.100 per capita of rural population according to the 1971 census. The Commission stipulated that panchayats should provide matching contribution by raising additional resources. *States were asked to draw up suitable schemes with detailed guidelines for the application of this grant but such schemes are to relate to the primary functioning of the panchayats.. Moreover, allocation of the grant among different levels of panchayats was left to the discretion of the States, preferably to be done on the basis of SFC recommendations.*

- (2) The XIth Finance Commission (EFC), on the other hand, recommended an *ad hoc* grant of Rs.8,000 crore for the panchayats in the country for the five-year period of 2000-01 to 2004-05. Of this, the Commission earmarked Rs.493 crore for the “*Maintenance of Accounts*” of village and intermediate-level panchayats; and another Rs.197 crore for “*Creation of Database Relating to the Panchayat Finances*”. These earmarked funds accounted for 8.63 % of the total grant recommended for the panchayats. The balance of 91.37 % of the grant was recommended by the Commission for being utilised on “*Maintenance of Civic Services*” by the Panchayats in charge of provision of civic services. The grant, other than the earmarked funds, is “*untied*” in nature, and *has to be distributed by the States on the basis of recommendations of their respective SFCs*. In order to ensure that the States augment their Consolidated Funds for supplementing the resources of their panchayats and municipalities, the Commission recommended *inter alia*, a cess on land-based taxes/duties like a cess/surcharge of 10 % on important State taxes. In addition, the Commission recommended levy of profession tax with an enhanced ceiling to be fixed by parliament and reforms in local taxes/rates relating to property/house tax, octroi and user charges. The guidelines issued by the Union Ministry of Finance for the utilisation of this XIth FC grant stipulated, *inter alia*, that the grant should not be given to intermediate and district-level panchayats where they do not have any responsibility for maintenance of civic services, and that the grant provided for this purpose would be “*untied*” except that it should not be utilised for payment of wages and salaries. The guidelines further stipulated that the minimum matching resources to be raised by the panchayats should be 25 % of the grant, and if any panchayat is found unable to meet this matching requirement, the State government is authorised to provide the matching contribution.
- (3) The XIIth Finance Commission which submitted its recommendations to the President of India in 2004 had recommended a grant of **Rs.20,000 crore** to the panchayats for the *period 2005-10*. *In regard to its utilisation, the Commission felt that the grant for the panchayats be used to improve service delivery by the panchayats in respect of water supply and sanitation.*

It suggested that priority should however, be given to expenditure on the O&M costs of water supply and sanitation so as to enable them to take over the schemes and operate them. The Commission, unlike its two predecessors, did not however, stipulate any matching obligation from the panchayats. Among the other recommendations made by the Commission, the important are: (a) SFCs must be constituted with people of eminence and competence with qualifications and experience in the relevant fields; (b) the convention established at the national level of accepting the principal recommendations of the Finance Commission without modification should be followed at the State level in respect of SFC reports; (c) As most States do not have credible information on the finances of their local bodies, local bodies would continue to need funding support for building database and maintenance of accounts. States may assess the requirement of the local bodies in this regard and earmark funds accordingly out of the grant recommended by the Commission; (d) the 'best practices' listed in para 8.19 of its report may be considered for adoption by States to improve the resources of the Panchayats; (e) *States should avoid constitution of the SFCs in phases, their frequent reconstitution, submission of reports, and tabling of the ATR in the legislature. It is desirable that SFCs are constituted at least two years before the required date of submission of their recommendations, and the deadline should be so decided as to allow the State governments at least three months' time for tabling the ATR preferably along with the budget for the ensuing financial year' and (f) a permanent SFC cell may be created in the Finance Department of State governments as the collection and collation of data would need to be done constantly and data would need to be made available to the SFC as and when it is constituted.*

- (4) So far as the State of Chhattisgarh is concerned, under the XIth Finance Commission dispensation, the Union Ministry of Finance, in their guidelines issued for utilisation of this grant, had allocated an annual share of Rs.42 crore for the new State (or 2.37 %) from the combined share recommended by the Commission for the composite State of MP (**Rs.143.09 crore**) for the five year period of **2000-05**. Of this, an annual grant of Rs.3.7083 crore is earmarked to maintenance of accounts of gram and **Janpad Panchayats**; and

another Rs.7.4060 crore for creation of database relating to finances of panchayats for the entire five year period.. The XIIth Finance Commission had recommended a total grant of **Rs.615 crore** for the panchayats in the State for the entire five year period 2005-10, or **Rs.123 crore per annum**. Thus, the Commission had substantially increased the EFC grant of Rs.42 crore to Rs.123 crore per annum for the panchayats in the State.

- (5) As for the data on allocation, release and distribution of the XIth and XIIth Commission grants for the State, the Department of Finance had furnished information for the period 2001-02 to 2005-06 which can be see from **Table No. 3.16** A perusal of the data provided to us and presented in the Table shows that:
- (i) the Government of India had released the entire grant of Rs.210 crore allocated to the State by the XIthFC;
 - (ii) the State government, honouring the requirement of the guidelines issued by the Ministry of Finance, had also met the matching share of panchayats from the State exchequer to the tune of 33.33% of the XIthFC grant;
 - (iii) the entire grant consisting of the Central and State allocations was released to the CEOs of the **Zila Panchayats** for further distribution among the **Gram Panchayats** in the State;
- (6) In this connection, we are constrained to observe that the existing practices/systems relating to the accounts of the **Gram Panchayats** and **Janpad Panchayats** (excluding the funds received by the CEO of JP meant for *non-Janpad Panchayat* activities/schemes) are primarily in disarray due to inadequate, if not defective, accounting procedures are followed by these panchayats. In a separate section, we have however dealt with the accounts and audit systems at gram and **Janpad Panchayat** levels. Nevertheless, suffice it to point out at this juncture that the financial support that was offered by the EFC to rectify this gap does not seem to have been applied to the specific purposes for which it was meant.

- (7) Next, during the last few years the available database on the finances of panchayats at various levels in the State has still been proving to be a major hurdle for a meaningful analysis. In fact, our data based on the reports received from responsible government officials as well as panchayats is deficient and defective in many respects like absence of sectoral division of expenditure of each level of panchayats, misclassifications, non-reliability of the data furnished to us by the panchayats, etc. Also we cannot but observe that there seems to be lack of information either on the manner in which the CFC funds are utilised by the panchayats or whether the funds are utilised properly, prudently and fully for the purposes for which they were meant.
- (8) In this connection, it needs to be noted that our primary intention is to ensure that the fiscal system of the panchayats in the State of Chhattisgarh becomes a 'role model' for other States. Our observations are not meant to denigrate or deliberately find fault with the government or panchayats. In view of this, we hope that the State government in the long term interests of panchayats would do well to apply immediate correctives to put the houses of panchayats in order.
- (9) We consider that, in view of the EFC and TFC laying more stress on O&M of basic civic services for the utilization of the grant recommended by them for panchayats, there is an imperative need to identify the basic services for which the panchayats at different levels need additional assistance for their O&M expenditure on such services. So far as the ***Gram Panchayats*** are concerned, we are of the opinion that, O&M of basic civic services like provision of safe drinking water, lighting of streets and other public places, drainage and sanitation, internal roads and culverts, cremation and burial grounds, and primary health care facilities qualify for being the prime responsibilities of ***Gram Panchayats***. Similarly, the ***Janpad Panchayats*** have to maintain the inter-village roads and culverts within the ***Gram Panchayats***, approach roads to the headquarter village of a ***Gram Panchayat*** from a regular motorable District Road or State Highway, management of

primary and upper primary education including maintenance of schools, protected water supply schemes (PWS), Primary Health Centres, veterinary hospitals and their dispensaries etc. The **Zila Panchayats**, on the other hand, may do well to maintain other district roads like the inter-Block roads and culverts, management of secondary education including maintenance of secondary schools, maintenance of minor irrigation tanks covering an Ayacut of more than a specific size, maintenance of social welfare hostels, etc. However, as the government had reported to have already prepared the necessary '**activity mapping**' in respect of the tasks and schemes relating to 29 'matters' specified in the Eleventh Schedule of the Indian Constitution for being transferred to the panchayats at the three levels, we refrain from making a separate exercise in detail towards this direction

Nevertheless, the Commission desires to make its view clear for the consideration of the government. As Art. 243 of the Indian Constitution does not accord any priority or special importance for any specific level of panchayats but deals with panchayat 'at all levels', it is the responsibility of the States to accord all the three levels of panchayats an appropriate and rightful place and role in the overall dispensation of democratic decentralization. It is true that the panchayats at the village level are the closest units of local governance for the people in the rural areas. Granting this in several States, including Chhattisgarh, where the average size of a **Gram Panchayat** in terms of population served is very small, these panchayats obviously suffer from several administrative, organizational, financial, economic and technical viability disadvantages in planning and implementation of schemes, regardless of their size. As implementation of several schemes is hierarchical in nature, it is not possible for these miniscule rural local government units to be the 'only' or 'ultimate' agency for planning and implementation of schemes of economic development and social justice. In other words, we should recognize that in the context of overall rural development, as each level of panchayat has a definite and crucial role to play, entrusting the task of implementation of all schemes

only to the **Gram Panchayats** would negate the very purpose for which the intermediate and district-level panchayats are contemplated and established. *We therefore suggest that the State government would do well to ensure that all the three levels of panchayats are functionally empowered in an appropriate manner consistent with considerations of efficiency and economy in the delivery of services to the ruralites. This approach is also in conformity with the principle of 'subsidiarity' in the spheres of functional and fiscal devolution.*

- (10) The XIIth Finance Commission grants are operative for the period 2005-06 to 2009-10. *As stated earlier, our SFC is required to make recommendations on the basis on which the TFC grant is to be allocated to the panchayats.* As two budget years (2005-07) have already elapsed, we would make the following recommendations governing the distribution of the TFC grant among the panchayats at different levels in the State for only three years commencing 2007-08. Thereafter, for the grants that may be offered for panchayats by the XIIIth Finance Commission from 2010-11 may also be transferred to the panchayats in the manner in which we recommended distribution of the XIIth Finance Commission grants, until the criteria is changed by the next State Finance Commission in our State.
- (i) From out of the total annual grant of Rs.123 crore of the XIIth Finance Commission grant, 6 % amounting to Rs.738 lakh may be utilised for creation of **3 posts of accountants at the Block level**, one for maintenance of accounts of **Janpad Panchayat**, and the other two for maintenance, compilation, and monitoring of **Gram Panchayat** accounts within the Block. Maintenance of accounts of each **Gram Panchayat** at the Block level does not however imply that the accountants at this level are a substitute for the secretaries of **Gram Panchayats** in so far as preparation, maintenance and submission of their panchayat accounts are concerned. The secretary of a **Gram Panchayat** would continue to prepare and maintain the prescribed registers and accounts for the receipts and

expenditure of his panchayat. He will however be required to furnish quarterly and annual accounts of his ***Gram Panchayat*** to the CEO of ***Janpad Panchayat*** concerned. Besides, these Block-level panchayat Accountants may be required to visit the ***Gram Panchayats*** and conduct internal audit of their accounts to ensure that the latter properly maintains the accounts, registers and other relevant documents for the statutory audit by the LF Auditors. The transactions of each panchayat will be collected, classified and monitored according to their source of funding and sectoral category of expenditure at the Block level by the Block-level ***Gram Panchayat*** accountants working under the CEO of ***Janpad Panchayat***. For example, for a functional / sectoral head like “construction and maintenance of roads”, tied and untied funds under different schemes / programmes / departments may be applied by ***Gram Panchayat***. In such a case, under the broad category of ‘Rural Roads’, funds received from each source and expenditure thereof, separately for ‘***construction***’ and ‘***maintenance***’ of roads need to be exhibited in a separate register at the Block level to facilitate an assessment of the aggregate quantum of funds spent by each ***Gram Panchayat*** on ‘road works’ under different sources of funding. At present, there is a data vacuum relating to the financial transactions of the ***Gram Panchayats*** at the Block level. Even the manner in which the accounts are being maintained is in the nature of laundry list, and a large number of secretaries of ***Gram Panchayats*** do not seem to maintain updated and reliable accounts of their panchayats. As large chunks of funds under revenue-sharing and grants-in-aid mechanisms are flowing into the coffers of ***Gram Panchayats*** in the State, there is an imperative need to ensure that these funds are properly and fully utilised by the ***Gram Panchayats*** for purposes for which they are meant. The need for transparency in the financial transactions of ***Gram Panchayats*** is very great in this context and deserves to be emphasised.

The CEO of each *Janpad Panchayat* may be required to submit each quarter, a consolidated account of receipts and expenditure of the *Gram Panchayats* in his Block, duly classified according to sectoral heads, to the CEO of the **Zila Panchayat**, with a copy to the Deputy Director of Panchayats of the district. These panchayat officials should be afforded an opportunity of physically verifying the veracity of the **Gram Panchayat** expenditure claimed to have been incurred by the *Gram Panchayats* concerned.

- (ii) From the annual grant of Rs.123 crore, we recommend that another 3 % amounting to Rs.369 lakh be earmarked to *creation of a separate 'Monitoring and Evaluation Cell' on panchayats in the Directorate/Commissionerate of Panchayats at the State level*. This Cell may be made responsible for regular collection and collation of financial data relating to all the three levels of panchayats in the State from its district-level Cells and the CEOs of **Zila Panchayats** for every financial quarter and year. This Cell may also be charged with the responsibility of providing the relevant statistical and other information not only on panchayat finances to the *State Finance Commission as well as the Central Finance Commission* , but also on other pertinent issues/aspects relating to Panchayati Raj in the State. In short, the Cell should act as a nodal agency for information on all facets of panchayats in the State.
- (iii) Also we recommend that from the annual grant of Rs.123 crore, an amount of Rs.492 lakh which accounts for 4 % of the said grant, be earmarked and utilised *for strengthening and maintaining the proposed Community Panchayat Cluster Resource Centres* are being established by the State government at the Block level.

- (iv) We further recommend that an amount of Rs.246 lakh from the annual grant of Rs.123 crore be earmarked to the *State Institute of Rural Development and the PTCs / ETCs* working under its control. This grant may be utilised by these institutions for strengthening their training infrastructure, and organising training programmes relating to financial management in panchayats for the official and non-official functionaries of panchayats at all levels. This works out to another 2 % of the XIIth FC allocation.
- (v) The balance of 85 % of the XIIth Finance Commission grant which works out to Rs.104.55 crore per annum may be allotted to the *Zila Panchayats, Janpad Panchayats* and *Gram Panchayats* in the ratio of 15:25:60 respectively. In other words, the shares of *Zila Panchayats, Janpad Panchayats* and *Gram Panchayats* in the total grant of *Rs.123 crore* would be *Rs.1568.25 lakh, Rs.2613.75 lakh and 6273.00 lakh respectively per annum*. We divided the *85 % of the XIIthFC* grant among the three levels of panchayats keeping two broad considerations in view. *First*, since most of the basic civic services need to be maintained at the **Gram Panchayat** level, we have to ensure that these grassroot or bottom levels of rural local governance receive at least 50 % of the total grant of Rs.123 crore of the XIIth FC per annum. *Gram Panchayats* should have complete control over the basic services like drinking water supply and sanitation and they are the only agencies to arrange for the provision of these services to their people. *Second*, in the light of the impending transfer of additional responsibilities to the other two levels of panchayats in the State which, we hope, would include certain responsibilities relating to the basic or core functions of civic nature, it is necessary to ensure them access to financial support for operating and maintaining them.
- (vi) The Commission had learnt that the State government had so far (as of October 30, 2006) received the total annual grant of Rs. 123

crore for 2005-06, and the first Installment of the grant for 2006-07 from the Union government. This annual grant of the TFC was allotted to the **Zila Panchayats**, **Janpad Panchayats**, and **Gram Panchayats** in the State in the ratio of 20:30:50 respectively on the basis of population and area served by the different units of panchayats, both carrying equal weights.

Nevertheless, we are of the view that there are several other neglected areas like strengthening the accounts and audit mechanisms, capability-enriching training institutions, machinery for building database on panchayat administration and finances which need some financial support, though in a limited way. *Accordingly we had earmarked 15 % of the total allocation of the XIIth FC grant to cover all these areas, and the balance of 85 % to go into the coffers of panchayats for meeting their O & M costs on basic or core services expected to be provided by them.*

(vii) The Commission is however not in favour of outright transfer of the district wise allocations of the 85 % of the TFC grant on one or two bases like population and area. Instead, the Commission recommends that the funds allotted to different levels of panchayats in the State be allocated to the CEOs of the **Zila Panchayats** according to the following four broad but simple indicators.

(a) percentage *share of rural population of the district in the total rural population of the State* (2001 census), carrying a *weight of 60 % in the total divisible pool;*

(b) percentage share of the *rural area of the districts in the total rural area of the State* (2001), carrying a weight of *20 %* in the total divisible pool;

- (c) percentage *share of the combined rural population of SCs and STs of the district in the total rural population of the SCs and STs* in the State (2001 census) with a weightage of **10%** in the divisible pool; and
- (d) 10% share of the *per capita internal revenue mobilized (IRM) by the Gram Panchayats of a district in 2003-04 in the combined total per capita IRM of all Gram Panchayats in the State* during the same year.

Accordingly, the percentage shares of the different districts in the State are worked out which are the same for the SFC shown in **Table No. 3.15**. The State government may however work out the figures again before finally deciding the individual and composite percentage shares of each district in the divisible pool.

- (viii) After the percentage share of each of the 16 districts in the **total divisible pool (85 % of the XIIthFC grant)** is allocated to the CEOs of the **Zila Panchayats** concerned, each CEO has to divide the district allocation among the **Zila Panchayat, Janpad Panchayat** and the **Gram Panchayats** of the district in the ratio of 15:25:60 respectively. So far as the **Gram Panchayats'** entitlement to the XIIthFC grant is concerned, the CEO may distribute 75 % of the allocation directly to the **Gram Panchayats** according weights of 70% to **population** and 30 % to the **geographical area** of the **Gram Panchayats**. **Gram Panchayat** should be required to apply not less than 50 % of their allocation to their O&M costs of safe drinking water supply and sanitation, including drainage schemes. Besides, they may be required to raise additional revenue through '**user charges**' at least equivalent to 25 % of the XIIthFC grant allocated to them. As for the district's share for **Janpad Panchayats**, the CEO of **Zila Panchayat** may distribute the fund among the **Janpad Panchayats** in his district on the basis of

population, area covered, and combined SC/ST population in the ratio of 60:25:15 respectively.

- (ix) In regard to the 25 % of the *Gram Panchayats*' share in the district allocation it should constitute a separate *District Gram Panchayat Fund* to be operated by the CEO of the *Zila Panchayat*. A District Basic Needs Committee may be constituted with the chairperson of the *Zila Panchayat* as its *ex officio* chairperson, and the CEO of the *Zila Panchayat* as its Member-Convenor. The Committee may consist of all *ZPTC* members, chairpersons of the *Janpad Panchayats*, and 30 Sarpanches of *Gram Panchayats* nominated by the District Collector by rotation. This Committee invites and considers proposals from the *Gram Panchayats* in the district, which are in need of additional assistance from the 25 % of the District *Gram Panchayat* Fund for the O & M of their basic services. The Committee is to be charged with the responsibility of sanctioning additional financial assistance in all genuine cases from the Fund to the *Gram Panchayats*, It should however be ensured that this Fund is fully distributed to the needy *Gram Panchayats* within the same fiscal year in and utilized by the *Gram Panchayats*, which it was released to them. Under no circumstances the Fund should be diverted to other purposes or kept unutilized but be used only by / for the *Gram Panchayats*. The State government may issue necessary guidelines to the CEOs of *Zila Panchayats* for utilizing this Fund.
- (x) *Janpad Panchayats* and *Zila Panchayats* may utilize not less than 75 % of their respective shares in the TFC grant for meeting the O&M costs of schemes under their control, maintenance of their assets, including office buildings, etc. These middle and apex level panchayats can be permitted to utilize upto 25 % of the TFC grant for meeting their office and administrative expenses of a recurring nature. The State government may issue appropriate guidelines to these panchayats in this regard.

3.2.5 Revenue -Matching Incentive Grants :

There is an imperative need to motivate the panchayats to fully exercise their available revenue-raising powers by providing attractive incentives. In States like *Goa, Tamil Nadu and AP*, the State government concerned introduced some form of revenue-matching grants for the *Gram Panchayats* and intermediate panchayats.

It must be emphasized that any incentive scheme should be such that it is related both to the tax rates fixed and the level of collection of certain specified levies of the panchayats. The scheme must also be based on certain verifiable, quantifiable, simple and objective performance parameters. Keeping these considerations in view, *the Commission recommends adoption of a new scheme of revenue-matching incentive grants for the different levels of panchayats, by the State government, which may be seen from Table No. 3.17.*

In this connection, it is pertinent to point out that until all our suggested reforms relating to additional revenue-raising powers (IRM) of the panchayats and the assigned revenues are brought into effect, as a transitory measure, the State Government may introduce a scheme of 'revenue-matching grants' to the panchayats subject to their fulfillment of the following conditions.

1. that the *Gram Panchayat* has levied its existing obligatory taxes and water rate entirely in accordance with the statutory provisions, and the executive rules issued thereof;
2. that the taxable values of all the taxable buildings in the panchayat are objectively assessed for purposes of its tax on buildings and user charges like the light tax and water rate;
3. that the 'demand' in respect of the obligatory taxes and water rate is properly determined;

4. that the ***Gram Panchayat*** has collected at least 75 % of its obligatory taxes and water rate in the year which are properly accounted for in their relevant records;.

The entitlement to this grant would however, be subject to the certification by the Deputy Director of the Panchayats at the district level that the ***Gram Panchayat*** concerned has fulfilled all the conditions laid down in accordance with our recommendation in the preceding paragraph. The State government may require the CEOs of ***Zila Panchayats*** to release this incentive grant from the District Panchayat Raj Fund to the eligible claimants to the grant, until alternative arrangements are made in this regard.

3.2.6 Group Accident Insurance For Sarpanches :

The political chief of a ***Gram Panchayat***, *vis-à-vis* his counterparts in the other two levels of panchayats has a pivotal role in the overall development of rural India. He is the captain of the grass-root local government institution in the rural sector and is saddled with several functional responsibilities, including convening the gram Sabha and conducting deliberations therein, ensuring levy and collection of local revenues, and supervising the day-to-day administration of the ***Gram Panchayat***. After the 73rd Constitutional Amendment Act, around 50 % of the Sarpanches (not to speak of his counterparts in the other two tiers) belong to marginalized sections of the rural society comprising SCs/STs/BCs and women, a substantial number of whom are illiterate or semi-literate with no or meagre experience in panchayat administration. Besides, being directly exposed to the people in their villages, their actions or inactions usually become more transparent. In fact, they are more vulnerable to pressure groups, formal and informal, in the village society. Therefore, to start with, this specific category of political chiefs of ***Gram Panchayats*** need special protection from group rivalries and accidents or disturbances or calamities, natural / man-made, that may result in their death or permanent total physical disability.

With a view to assuring the families of the disabled or dead Sarpanches of financial support in all such eventualities, it is necessary to introduce a

scheme of '**Group Accident Insurance**' for the elected Sarpanches for the period of their tenure in office. *Accordingly, we recommend that the State government may do well to ensure that at least a minimum financial support of Rs.2 lakh is made available to the legal heir of the serving Sarpanch who dies or becomes permanent and totally disabled due to factors, other than age and long-term illness, beyond his control. For this, the State government may evolve a scheme with tie-up with the relevant insurance company, and meet the insurance premium from the State exchequer.* No financial commitment for this premium need be placed on the Sarpanches. The State government may allot a separate grant to each district for this purpose which could be administered by the District Collector.

3.2.7 Unanimous Election Grant :

With a view to achieving unanimous choice of the Sarpanch and members of the **Gram Panchayats**, the Chhattisgarh government may, on lines of **Andhra Pradesh** with certain local modifications, offer a grant to those **Gram Panchayats** which achieve unanimous choice of their members and/or Sarpanch, from the next general elections to panchayats. Unanimous elections result in economies in election expenses for the government, avoidance of heavy expenditure on election campaigns by the candidates, besides prevention of group clashes and violence in the villages on the eve of elections.

In **Andhra Pradesh**, for the general elections to the Panchayats held in 2006, the State government offered an incentive grant to those **Gram Panchayats**, which elected their Sarpanches and members unanimously without election. Each **major Gram Panchayat** was offered a grant of Rs.15 lakh, and each **minor Gram Panchayat** a grant of Rs.5 lakh for electing their Sarpanches without contest.

The Chhattisgarh government may introduce three types of unanimous election grant in the State. *First*, where a **Gram Panchayat** elects only its Sarpanch unanimously, the grant could be equal to Rs.50,000; *second*, where all the members of a **Gram Panchayat** alone are chosen unanimously, it may be offered a

grant of Rs.1.00 lakh; and *third*, where the electorate in a ***Gram Panchayat*** choose both the Sarpanch and all members of their ***Gram Panchayat*** unanimously, the panchayat concerned could be made eligible for a grant of Rs.1.50 lakh. Similarly, for the unanimous election of the chairperson of a ***Janpad Panchayat*** and a ***Zila Panchayat*** the incentive grant could be fixed at Rs.5 lakh and Rs.15 lakh respectively by the State government. This grant should however be '*untied*' in nature forming part of their 'general funds'.

The State government may however, require the ***Gram Panchayats*** concerned to utilise the grant only on O&M of street lighting and drinking water supply schemes. Moreover, these grants may be offered only for the general elections to panchayats to be held in the State once in five years. Furthermore, the expenditure involved in offering these grants may also be met from the District Panchayat Raj Fund to start with.

Table No. 3.1
**Revenue Assigned To Gram and
 Janpad Panchayats Under Royalty On Minor Minerals
 (2001-2002 To 2004-2005)**

(Rs. lakh)

Sl. No.	District	Total Amount Assigned To Panchayats			
		2001-02	2002-03	2003-04	2004-05
1	Bastar	4.52	4.45	12.25	20.07
2	Bilaspur	9.31	6.16	63.57	59.30
3	Dantewada	2.08	2.17	14.37	4.29
4	Dhamtari	0.89	0.47	2.59	3.47
5	Durg	0.69	0.61	2.98	9.84
6	Janjgir -Champa	5.13	3.52	8.34	52.97
7	Jashpur	9.01	5.34	38.48	28.48
8	Kawardha	0.00	0.00	0.00	9.24
9	Kanker	0.00	1.89	6.35	1.93
10	Korba	17.03	8.59	37.65	30.25
11	Koriya	1.18	5.69	23.44	32.70
12	Mahasamund	5.81	2.67	19.86	19.36
13	Raigarh	9.42	11.66	52.80	38.74
14	Raipur	12.77	22.38	70.23	45.56
15	Rajnandgaon	3.18	4.26	23.15	11.13
16	Sarguja	8.98	10.14	13.94	32.67
Total		90.00	90.00	390.00	400.00

Source: Joint Director (Geology), Directorate Geology and Mining, Chhattisgarh

Table No. 3.2
**Revenue Transfer From
Land Revenue & Normal Land Cess To Panchayats**
(2001-2002 To 2005-2006)

(Rs. lakh)

Year	Gross Land Revenue Collected*	Assigned Gross Normal Land Cess Collected	Total	Costs Of Collection (10%)	Assumed Net Revenue Transferred To Panchayats
2001-02	1657	828.50	2485.50	248.55	2236.95
2002-03	1256	628.00	1884.00	188.40	1695.60
2003-04	381	190.50	571.50	57.15	514.35
2004-05	2869	1434.50	4303.50	430.35	3873.15
2005-06 (RE)	4501	2250.50	6751.50	675.15	6076.35

Table No. 3.3
**Total Assigned Revenue Released To The Panchayats
By The State Government**
(2001-2002 To 2005-2006)

(Rs. lakh)

Year	Revenue Realised By The State Government*	Amount Transferred To Panchayats	Shortfall*
2001-02	3252*	3252	-
2002-03	2796*	2796	-
2003-04	1924*	1704	220 [@]
2004-05	5423	5283	140 [@]
2005-06 (BE)	7776 [§]	7276 [§]	400 [@] 100 [£]
Total	21171	20311	860

*: Revenue transferred from royalty on minor minerals, land revenue and land cess is assumed to have been the amounts realized by the State government.

£ Addl. Stamp Duty

@ Share in Surcharge on Sales tax

§ Does not include the Royalty on Minor Minerals

Table No. 3.4
Assigned Revenues To Panchayats
(2001-2002 To 2005-2006)

(Rs. lakh)

Year	Revenue Item	Revenue To Be Transferred	Amount Assigned To Panchayats	Shortfall
2001-02	A. Addl. Duty On Stamp Duty	750	750	-
	B. Share In Surcharge On Sales Taxes	175	175	-
	C. Royalty On Minor Minerals	90*	90	-
	D. Land Revenue & Normal Land Cess	2237*	2237*	-
	Sub Total	3252	3252	-
2002-03	A. Addl. Duty On Stamp Duty	800	800	-
	B. Share In Surcharge On Sales Taxes	210	210	-
	C. Royalty On Minor Minerals	90*	90	-
	D. Land Revenue & Normal Land Cess	1696*	1696*	-
	Sub Total	2796	2796	-
2003-04	A. Addl. Duty On Stamp Duty	800	800	-
	B. Share In Surcharge On Sales Taxes	220	-	220
	C. Royalty On Minor Minerals	390*	390	-
	D. Land Revenue & Normal Land Cess	514	514	-
	Sub Total	1924	1704	220
2004-05	A. Addl. Duty On Stamp Duty	800	800	-
	B. Share In Surcharge On Sales Taxes	350	210	140
	C. Royalty On Minor Minerals	400*	400	-
	D. Land Revenue & Normal Land Cess	3873*	3873*	-
	Sub Total	5423	5283	140
2005-06 (BE)	A. Addl. Duty On Stamp Duty	900	800	100
	B. Share In Surcharge On Sales Taxes	400*	-	400
	C. Royalty On Minor Minerals	400*	400*	-
	D. Land Revenue & Normal Land Cess	6076*	6076*	-
	Sub Total	7776	7276	500
Total	A. Addl. Duty On Stamp Duty	4050	3950	100
	B. Share In Surcharge On Sales Taxes	1355	595	760
	C. Royalty On Minor Minerals	1370@	1370@	-
	D. Land Revenue & Normal Land Cess	14396*	14396*	-
	Grand Total	21171	20311	860£

Note: @ for 2005-06, figures not available

* assumed by the SFC

£ includes only items (a) & (b)

Table No. 3.5
Summary Of Recommendations
Relating To Assigned Revenues To Panchayats

Sl. No.	Source Of Revenue	Recommendation
1	Land Revenue	The existing dispensation may be continued.
2	Normal Land Cess	Government may increase the land cess from the existing 50% to 250%, and the net proceeds thereof, along with land revenue, may be credited to District Panchayat Raj Fund, for being utilized for sanctioning loan capital to panchayats. State government may make a matching contribution to the Fund equivalent to land revenue collections.
3	Additional Stamp Duty	The existing rate of one % may be increased to two %, and the net revenue from the additional stamp duty may be transferred to GPs, JPs and ZPs in the ratio of 3:1:1. <i>Inter se</i> distribution among individual panchayats may be made on per capita basis.
4	Surcharge On Sales Tax	Government may transfer 30 % of the surcharge revenue after increasing its rate from the existing 10 % to 15 %, <i>or</i> transfer 50 % of the surcharge revenue to the panchayats without increasing its existing rate to the panchayats. The revenue from the surcharge may be allocated to GPs, JPs and ZPs in the ratio of 3:1:1 respectively, and <i>inter se</i> distribution among individual Janpad and Gram Panchayats may be made on per capita basis.
5	Royalty On Minor Minerals	The respective shares of Gram Panchayats and Janpad Panchayats may be changed to 3:1 in the divisible revenue, in place of the existing ratio of 4:1.
6	Entertainment Tax	90 % of the gross proceeds from entertainment tax collected by the State government from cinematographic exhibitions may be transferred to urban local bodies and panchayats in the ratio of 2:1. The share of panchayats (30%) may be credited to the District Panchayat Raj Fund of the districts on the basis of rural population of each district.
7	Minor Forest Produce	30 % of the minor forest produce may be transferred to the Gram Panchayats in Schedule-V areas.
8	Revenue Collected By The APMFC	50 % revenue to Local Bodies. 80 % of this revenue of Rural Local Bodies to be transferred to JPs and GPs in the ratio of 1 : 2. The remaining 20 % to the Urban Local Bodies which is to be transferred to the Municipal Councils and Nagar Panchayats in the ratio of 7 : 18. The distribution should be done on the basis of equality.

Table No. 3.6
Grant-In-Aid In The Finances Of 2728 Sample Gram Panchayats
(1999-2000 & 2003-2004)

Sl. No.	Item Of Receipt	1999-2000		2003-04		% Growth
		Amount (Rs. lakh)	% in Total Receipts	Amount (Rs. lakh)	% in Total Receipts	
I	Total Receipts	5693.57	100.00	7839.32	100.00	37.69
II	Assigned Revenue From Land Revenue	307.20	5.40	78.33	1.00	-74.50
III	Grants-In-Aid					
a)	SFC Devolution	823.22	14.46	1032.25	13.17	25.39
b)	General Purpose Grants, Including Other Assigned Revenues	248.94	4.37	409.63	5.23	64.45
c)	Special Purpose Grants	136.87	2.40	368.92	4.71	169.54
d)	Maintenance Grant	204.53	3.59	281.23	3.59	37.50
e)	Plan Grant (including TFC / EFC Grant)	529.74	9.30	941.60	12.01	77.75
Sub Total Of III (B) To (E) + II		1427.28	25.07	2079.71	26.53	45.71
Sub Total Of II + III (A) To (E)		2250.50	39.53	3111.96	39.70	38.28
IV	Grants For CSS And SSS					
a)	SGRY	1037.85	18.23	1762.62	22.48	69.83
b)	Food For Work	260.44	4.57	312.30	3.98	19.91
c)	IAY	567.88	9.97	678.93	8.66	19.56
d)	PMGY (Housing)	343.49	6.03	327.91	4.18	-4.54
e)	Ground Water / Hariyali	182.28	3.20	196.14	2.50	7.60
f)	Mid-Day Meals	250.96	4.41	337.99	4.31	34.68
Sub Total Of IV		2642.90	46.42	3615.89	46.13	36.82
V	Other Miscellaneous Grants					
a)	MPLAD	154.84	2.72	141.91	1.81	-8.35
b)	MLALAD	191.10	3.36	413.02	5.27	116.13
c)	Janbhagidari Fund	90.02	1.58	8.06	0.10	-91.05
Sub Total Of V		435.96	7.66	562.99	7.18	29.14
Grand Total Of II + III (B) To (E) + IV + V		4506.14	79.14	6258.59	79.84	38.89
Grand Total Of II To V		5329.36	93.60	7290.84	93.00	36.81

Table No. 3.7
Projected Grants-In-Aid Of 9820 Gram Panchayats
(2003-2004)

Sl. No.	Item Of Receipt	2003-04		Per Capita (Rs.) (2001)
		Amount (Rs.Lakh)	% In Total Receipts	
I	Total Receipts	28219.25	100.00	169.51
II	Assigned Revenue From Land Revenue	281.97	1.00	1.69
III	Grants-In-Aid			
a)	SFC Devolution	3715.80	13.17	22.32
b)	General Purpose Grants (Including Other Assigned Revenue)	1474.55	5.23	8.86
c)	Special Purpose Grants	1328.00	4.71	7.98
d)	Maintenance Grant	1012.35	3.59	6.08
e)	Plan Grant (Including TFC / EFC Grant)	3389.48	12.01	20.36
Sub Total Of III (B) To (E) + II		7486.35	26.53	44.97
Sub Total Of II + III		11202.14	39.70	67.29
IV	Grants for CSS and SSS			
a)	SGRY	6344.92	22.48	38.11
b)	Food for Work	1124.19	3.98	6.75
c)	IAY	2443.95	8.66	14.68
d)	PMGY (Housing)	1180.38	4.18	7.09
e)	Ground Water / Haryali	706.05	2.50	4.24
f)	Mid-day Meals	1216.66	4.31	7.31
Sub Total Of IV		13016.14	46.13	78.18
V	Other Miscellaneous Grants			
a)	MPLAD	510.83	1.81	3.07
b)	MLALAD	1486.75	5.27	8.93
c)	Janbhagidari Fund	29.01	0.10	0.17
Sub Total Of V		2026.60	7.18	12.17
Sub Total Of II + III (b) To (e) + IV + V		22529.09	79.84	135.33
Grand Total Of II to V		26244.89	93.00	157.65

Table No. 3.8
Role Of Grants-In-Aid In The Finances Of Janpad Panchayats
(1999-2000 & 2003-2004)

Sl. No.	Item Of Receipt	1999-2000		2003-04			% Growth
		Amount (Rs. Lakh)	% In Total Receipts	Amount (Rs. Lakh)	% In Total Receipts	Per Capita (Rs.) (2001)	
I	Total Receipts	11156.64	100.00	21673.67	100.00	130.19	94.27
II	Assigned Revenues	337.70	3.03	717.79	3.31	4.31	112.55
III	Grants-in-Aid						
1.	State Govt. Grants	3551.81	31.84	6318.14	29.15	37.95	77.89
2.	Grants for Agency Functions (CSS, line department schemes)	7185.35	64.40	14364.77	66.28	86.29	99.92
	Sub Total of III (1+2)	10737.16	96.24	20682.91	95.43	124.24	92.63
	Total of II + III	11074.86	99.27	21400.70	98.74	128.55	93.24

Table No. 3.9
Role Of Grants-In-Aid In The Finances Of Zila Panchayats
(2001-2002 & 2003-2004)

Sl. No.	Item	2001-02		2003-04			% Growth
		Amount (Rs. Lakh)	% In Total	Amount (Rs. Lakh)	% In Total	Per Capita (Rs.) (2001)	
I	SFC Devolution	925.00	2.59	800.00	2.03	4.81	-13.51
II	State Government Grants	13135.43	36.80	8775.22	22.22	52.71	-33.19
III	Grants for Agency Functions	21312.86	59.7	29077.74	73.63	174.66	36.43
IV	Panchayat Department Grants	320.22	0.90	837.63	2.12	5.02	161.58
	Total (16 ZPs)	35693.51	100.00	39490.59	100.00	237.21	10.64
	(Average Per ZP)	2230.84	-	2468.16	-	-	10.64

Note: 1.The grants under Sl.No.I to IV were however Rs.39614.39 lakhs in 2002-03.

2.These figures are exclusive of the amounts meant for JPs and GPs routed through the ZPs.

Table NO. 3.10
Total Revenue Transfers
To Panchayats From State & Central Governments
(2001-2002 To 2005-2006)

(Rs. lakh)

Sl. No.	Type Of Revenue Transfer	2001-02	2002-03	2003-04	2004-05 (RE)	2005-06 (BE)
1	<i>Devolution As Per SFC Recommendations</i>	4268.56	4768.56	5398.20	8375.99	9918.10
2	<i>Revenue-Sharing With Panchayats</i>					
i.	Additional Duty On Stamp Duty	750.00	800.00	800.00	800.00	800.00
ii.	30% Share To Panchayats From 10% Surcharge On Sales Tax	175.00	210.00	0.00	210.00	0.00
iii.	Royalty On Minor Minerals	90.00	90.00	390.00	400.00	400.00
iv.	Land Revenue And Normal Land Cess [£]	2237.00	1696.00	514.00	3873.00	6076.00
	Sub-Total Of 2	3252.00	2796.00	1704.00	5283.00	7276.00
3	Sub-Total Of (1 + 2) <i>Grants For Implementation Of State Government Schemes (Panchayat Department)</i>	7520.56	7564.56	7102.20	13658.99	17194.10
i.	Training Of Panchayat Functionaries	5.00	5.50	6.00	6.00	57.00
ii.	Honorarium To Panchayat Karmis	650.00	789.96	810.00	975.00	1067.04
iii.	Prizes To Panchayats	50.00	50.00	50.00	50.00	50.00
iv.	Panchayat And District-Level Gazette (Monthly Publication Of News Bulletin)	30.00	8.00	10.00	10.00	10.50
	Sub-Total Of 3	735.00	853.46	876.00	1041.00	1184.54
4	<i>Grants For Panchayats By Line Departments For Implementation Of Schemes, Including CSS*</i>	31196.72	37295.13	39284.39	na	na
5	<i>Matching Share Of Panchayats Met By State Govt. For XIth FC Grant</i>	2800.00	1400.00	655.00	2145.00	Nil
6	<i>XIth FC Grant</i>	8400.00	4200.00	1965.00	6435.00	-
7	<i>XIIth FC Grant</i>	-	-	-	-	12300.00
	TOTAL (1 to 7)	50652.28	51313.15	49882.59	23279.99	30678.64

Note: * Financial provision only. Actual amounts released to PRIs are not available.

£ assumed figures

Table No. 3.11
SFC Devolution On Panchayats
(2001-2002 & 2005-2006)

(Rs. lakh)

Year	Purpose	Allocation / Release to / Utilization by			
		ZP	JP	GP	Total
2001-02	General Purpose Grants To ZPs	40.00	-	-	40.00
	Basic Services Grant To GPs	-	-	4000.00	4000.00
	Honorarium And Other Facilities To Panchayat Office Bearers [£]	228.56	-	-	228.56
	Total	268.56	-	4000.00	4268.56
2002-03	General Purpose Grants To ZPs	40.00	-	-	40.00
	Basic Services Grant To GPs	-	-	4500.00	4500.00
	Honorarium And Other Facilities To Panchayat Office Bearers [£]	228.56	-	-	228.56
	Total	268.56	-	4500.00	4768.56
2003-04	General Purpose Grants To ZPs	50.00	-	-	50.00
	Basic Services Grant To GPs	-	-	5000.00	5000.00
	Honorarium And Other Facilities To Panchayat Office Bearers [£]	348.20	-	-	348.20
	Total	398.20	-	5000.00	5398.20
2004-05	General Purpose Grants To ZPs	50.00	-	-	50.00
	Basic Services Grant To GPs	-	-	8000.00	8000.00
	Honorarium and other facilities to Panchayat Office Bearers [£]	325.99	-	-	325.99
	Total	375.99	-	8000.00	8375.99
2005-06 (BE)	1) General purpose grants to ZPs	150.00	-	-	150.00
	2) Basic services grant to GPs	-	-	9206.00	9206.00
	3) Honorarium and other facilities to Panchayat Office Bearers [£]	562.10	-	-	562.10
	Total	712.10	-	9206.00	9918.10

Note: The data supplied by the Panchayat Department of the State specify the same figures under "allocation" and "release" by the State government, and "utilization" by the panchayats for each year.

[£] A part of this grant is further transferred by the Zila Panchayats to Janpad and Gram Panchayats.

Table No. 3.12
SFC Devolution On PRIs
As Percentage Of Total Revenue Receipts Of The State
(2001-2002 & 2005-2006)

(Rs.lakh)

Year	Total Revenue Receipts Of State Government	Total SFC Devolution On PRIs By The State	%
2001-02	437570	4268.56	0.98
2002-03	541730	4768.56	0.88
2003-04	595932	5398.20	0.91
2004-05 (RE)	745757	8375.99	1.12
2005-06 (BE)	788117	9918.10	1.26
% Increase / Growth	80.11	132.35	28.57

Table No. 3.13
SFC Devolution As Percentage
Of State's Own Revenue (Tax + Non-Tax)
(2001-2002 & 2005-2006)

(Rs.lakh)

Year	State's Own (Tax + Non-Tax) Revenue	Amount Released By State Govt. To Panchayats	%
2001-02	271552	4268.56	1.572
2002-03	328400	4768.56	1.452
2003-04	371266	5398.20	1.454
2004-05 (RE)	422169	8375.99	1.984
2005-06 (BE)	464707	9918.10	2.134
% Increase / Growth	71.13	132.35	35.775

Source: Data supplied by the Panchayat Department Govt. of Chhattisgarh Raipur.

Table No. 3.14
Accepted SFC Devolution
(2.91% Of Gross Tax And Non-Tax Revenue Of
The State Government) And The Actual Devolution On PRIs In Chhattisgarh
(2001-2002 & 2005-2006)

(Rs.lakh)

Year	State's Own (Tax & Non- Tax)Revenue	2.91% Share To PRIs In Col.2	Actual Transfer Made To PRIs	Shortfall In Amount Devolved (3-4)
1	2	3	4	5
2001-02	271552	7902.16	4268.56	3633.60
2002-03	328400	9556.44	4768.56	4787.88
2003-04	371266	10803.84	5398.20	5405.64
2004-05 (RE)	422169	12285.12	8375.99	3909.13
2005-06 (BE)	464707	13522.97	9918.10	3604.87
Total	1858094	54070.54	32729.41	21341.13
%		100.00	60.53	39.47

Table No. 3.15
District-Wise Illustrative Allocative Shares Of XIIthFC Devolution For PRIs

Sl. No.	District	Rural Population (2001)		Rural Area*		Per Capita IRM Of GPs		Rural SCS + STS		Percentage Shares				
		(Lakhs)	(%)	(Sq. Km.)	(%)	(Rs.)	(%)	(Lakhs)	(%)	Rural Population 60%	Area*20%	Per Capita IRM Of GPs 10%	SC/ST Rural 10%	Total 100
1	Bastar	11.77	7.07	1702	12.34	5.86	4.02	8.73	10.69	4.24	2.47	0.40	1.07	8.18
2	Bilaspur	15.12	9.08	857	6.21	17.47	11.99	6.74	8.26	5.45	1.24	1.20	0.83	8.72
3	Dantewada	6.67	4.01	1561	11.32	7.01	4.81	5.68	6.96	2.40	2.26	0.48	0.70	5.84
4	Dhamtari	6.13	3.68	408	2.96	10.46	7.18	2.18	2.67	2.21	0.59	0.72	0.27	3.79
5	Durg	17.38	10.44	870	6.31	14.18	9.73	5.09	6.23	6.26	1.26	0.97	0.62	9.12
6	Janjgir-Champa	11.72	7.04	447	3.24	3.83	2.63	4.20	5.14	4.22	0.65	0.26	0.51	5.65
7	Jashpur	7.09	4.26	656	4.76	12.69	8.71	4.90	6.00	2.56	0.95	0.87	0.60	4.98
8	Kanker	6.20	3.72	643	4.66	5.68	3.90	3.84	4.70	2.23	0.93	0.39	0.47	4.03
9	Kawardha	5.40	3.24	435	3.15	5.92	4.06	1.86	2.28	1.95	0.63	0.41	0.23	3.21
10	Korba	6.45	3.87	715	5.18	5.15	3.53	4.22	5.17	2.32	1.04	0.35	0.52	4.23
11	Koriya	4.12	2.47	598	4.34	1.20	0.82	2.63	3.22	1.48	0.87	0.08	0.32	2.75
12	Mahasamund	7.63	4.58	496	3.60	9.71	6.66	3.16	3.87	2.75	0.72	0.67	0.39	4.52
13	Raigarh	10.96	6.58	653	4.73	3.98	2.73	5.83	7.14	3.95	0.95	0.27	0.71	5.88
14	Raipur	20.99	12.61	1345	9.75	12.51	8.58	6.96	8.53	7.56	1.95	0.86	0.85	11.23
15	Rajnandgaon	10.52	6.32	802	5.82	14.47	9.93	4.21	5.16	3.79	1.16	0.99	0.52	6.46
16	Surguja	18.35	11.02	1603	11.62	15.62	10.72	11.42	13.99	6.61	2.32	1.07	1.40	11.41
Total		166.48	100.00	13791	100.00	145.74	100.00	81.64	100.00	60.00	20.00	10.00	10.00	100.00

* The data on district-wise rural area are not available. These figures in the Table pertain to the total area of the districts. However figures relating to rural area may be used by the State government in working out the percentage share of this component in the total allocation of each district.

Table No. 3.16
Grants From XIth And XIIth Finance Commissions To Panchayats
 (2000-2001 & 2006-2007)

(Rs. lakh)

CFC/Year	CFC Grant To State By GOI		Matching Share Of State Government	Total (3+4)	Amount Released To CEOs ZPs	Amount Utilised By Panchayats (Assumed)
	Allocation	Release				
1	2	3	4	5	6	7
XIth Finance Commission						
2000-01						
2001-02	4200	-	-	-	-	-
2002-03	4200	8400	2800	11200	11200	-
2003-04	4200	4200	1400	5600	5600	-
2004-05	1965	1965	655	2620	2620	-
	6435	6435	2145	8580	8580	-
Total	21000	21000	7000	28000	28000	90%
XIIth Finance Commission						
2005-06	12300	12300	-	12300	12300	-
2006-07	12300	6150	-	6150	6150	50%

Source: Department of Panchayats Government of Chhattisgarh Raipur.

Table No. 3.17
Suggested Revenue-Matching Grants To Panchayats

S.No.	Eligibility	Rate Of Matching Grant Payable
I.	Gram Panchayat	
1.	If it fixes the minimum rate(s) for the tax on buildings and achieve 'cent per cent' recovery rate in a year	50% of the collections of tax on buildings
2.	If it fixes the minimum rate of tax on buildings higher than the minimum and lower than the maximum limits and achieve 'at least 90 %' recovery rate in a year	75% of the collections of tax on buildings
3.	If it fixes the maximum rate and achieve at least 80 % recovery rate in a year	100% of the collections of tax on buildings
II.	Zila Panchayat	
1.	Increase in the land cess rate	
i.	From Rs.2.50 to Rs.5/- per rupee of land revenue	100% of the collections resulting from the increased cess
ii.	More than Rs.5/- and upto Rs.10/- per rupee of land revenue	150% of the collections resulting from the increased cess
III.	Janpad Panchayat / Zila Panchayat	
1.	Surcharge on Stamp Duty on transfers of immovable properties	
i.	Levy of surcharge at a rate not exceeding 20 %	50% of collections of the surcharge
ii.	Levy of surcharge at a rate of more than 20 % but not more than 40 %	75% of collections of the surcharge
iii.	Levy of surcharge at a rate of more than 40 % but not more than 50 %	100% of collections of the surcharge
2.	Surcharge on State Excise Duty by the Janpad Panchayat	50% of the net revenue collected from the Surcharge