

Chapter – 1

General Introduction

- Initiation and Evolution of Panchayati Raj System After Independence.
- Constitutional Status to Panchayati Raj System.
- Steps of Establishment of Urban Bodies.
- Constitutional Status to Urban Bodies.
- Formation of The Fourth State Finance Commission.
- Functioning of State Finance Commission.
- Format of The Report of State Finance Commission.

- 1.1 Gram Panchayats - The ancient self-conscious, Indian political vision of self-governance, with accountability and public participation, gradually declined during the periods of dynastic rule. During the long period of British colonial slavery, it could only save itself symbolically, but its real value had been destroyed.
- 1.2 "**Everything in India attracts me. It has everything that a human being with the highest possible aspiration can want.**" This sentence said by Mahatma Gandhi in 1929, not only inspired, but also forced the political governance system and social power layers to self-evaluate themselves, in India's contemporary situation aspiring for future achievements. It also set a goal for Independent India to achieve and establish those great human values and ideals of the freedom, for which millions of the poor people sacrificed themselves.
- 1.3 "**I shall work for an India in which, the poorest shall feel that it is their country in whose making they have an effective Voice**" - (Mahatma Gandhi 1931). Certainly, after India's Independence, there were big questions before achieving its ideals, for this, it was necessary to have real distribution of political powers, so that "**Poor People's Swaraj**" can be established in India and the "true democracy" could be run, from below by the people of each of the villages.
- 1.4 In order to get rightful participation of the people in Political and Economic power, it Was necessary to revive the rural Panchayati Raj System of village self-governance since ancient times and to make it truly empowered.
- 1.5 Chhattisgarh in its historical context is an excellent example of rural self-governance system. In historical references, most of the areas of the ancient Chhattisgarh existed in the form of small "**Aatavika Republics**". These Aatavika Republics were handed by the local chieftains, who ruled their areas through collective political participation of the rural community, however they also were under the tributary jurisdiction of the bigger dynasties. Chhattisgarh has been an area with a majority of tribal population. There has also been collectivism and individual active cooperation in the Cultural, Political, Judicial and Economic way of life of the tribal population. Certainly, the seeds of the current political ideology of village self-governance have also been sown from here.

Post-Independence Initiation and Evolution of Panchayati Raj System

- 1.6 After independence, continuous efforts were made to provide a constitutional basis to the Panchayati Raj System. Panchayats and local self-government have also been mentioned In Article 40 and 246 of the constitution of India. Under the Directive principles of state policy, it is mentioned in Article 40, that - "the state shall take steps to organize village panchayats and endow them with such powers and

authority as may be necessary to enable them to function as units of self-government.

- 1.7 After independence, influenced by the "Etawah"1 Project, (1A scheme started in Etawah district for rural development by the Uttar Pradesh Government in 1948 under the leadership of Mr. Albert mayer of U.S.A.) two programs were started for development initiatives. First, the community Development Program was started from 2 October 1952. It included almost all the activities of rural development which were to be implemented with people's participation through the help of gram panchayats. Secondly, National Extension Service was started in 1953.
- 1.8 The community Development Program and the National Extension Service did not yield significant results. Apart from the other reasons, the main reason for failure of the programs was, the low interest of the local bodies, especially the Gram Panchayats, in implementing these programs. As a result, in 1957, A committee was formed by National Development council in the Chairmanship of Balwant Rai Mehta to look into the functioning of these programs. Establishment of three-tier Panchayati Raj Institutions was suggested by Mehta committee, namely, "Gram Panchayats" at village level, "Panchayat Samiti" at the Block level and "Zila Parishad" at the District level. By accepting the recommendation of Mehta Committee, Panchayati Raj was established in the country by the states, under which Rajasthan became the first state to establish Panchayati Raj on 2nd October 1959.
- 1.9 Since the Centre and the states are not bound to the Directive principles and local self governance is included in the state list, hence there was a lack of uniform structure of local bodies across the country and the level of implementation also varied. In many states, rural bodies did not have sufficient powers to carry out local development works. They were heavily dependent on center and state governments for financial aid. Many states did not consider it necessary to establish elected local bodies. In many states, local bodies were dissolved and local governance was handed over to government officials. In many states, Indirect elections were held in the local bodies, Even after various states adopted the Panchayati Raj System following the recommendation of Balwant Rai Mehta committee, the expected success in community development or rural development, could not be achieved.
- 1.10 Various committees were constituted by the government of India from time to time to get suggestions on measures to revive and strengthen the Panchayati Raj System in the country, out of which Ashok Mehta Committee 1977, G.V.K. Rao Committee 1985 and L.M. singhvi Committee 1986 are prominent.

1.11 A two-tier Panchayati Raj System was recommended by the Ashok Mehta committee constituted in 1977, in which, it was recommended to form Zila Parishad at district level and Mandal Panchayats by combining some villages at lower level. G.V.K. Rao Committee recommended, making “District” the basic unit of planning and holding regular elections. Committee also recommended to create the post of “District Development Commissioner” and to make him the chief executive officer of the District Council.

Box 1.1, Part IX, Article 243(A to O)

Gram Sabha - This law provisions for the Gram Sabha, as the foundation of the Panchayati Raj System. Gram Sabha includes, all the persons registered in the voter list of a village, included in the panchayat area at the village level. The Gram Sabha will have powers equivalent to that of the Legislative Assembly at the village level.

Three-tier System - Panchayats will be formed at village. intermediate and district levels in every state.

Election of Members and the Chairman - All seats in any Panchayat will be filled by persons elected by direct election. The president of the Gram Panchayat will be elected as per the provision made by the state Legislature and the president of the intermediate and District Panchayat will be elected by its Elected members among themselves.

Tenure of Panchayat bodies - The tenure of the panchayats at each level will be five years. In case of dissolution, elections will be compulsorily held within six months.

Rights and responsibilities of Panchayats - The state shall confer on the panchayats such powers and authorities, as may be necessary to enable them to function as institutes of self government. Implementation of the Work related to 29 subjects included in the 11th schedule, personnel and finances by panchayats.

Powers of Panchayats to impose taxes - States will give power to a panchayat to impose taxes and fees.

Formation of State Finance Commission to review the financial situation - State Finance commission will be constituted by the state in every five years to review the financial status of panchayats.

1.12 After Balwant Rai Mehta committee's suggestion of establishing a three-tier Panchayati Raj System in 1957, the recommendations of L.M. Singhvi committee was the most significant. The committee recommended providing more financial resources to Panchayati Raj Institutions and providing them constitutional status to strengthen the Panchayats. This recommendation proved to be a milestone.

Constitutional Status to Panchayati Raj

1.13 The recommendation of L. M. Singhvi committee became the basis for the 73rd and 74th constitutional amendments. By the 73rd constitutional amendment 'Part IX' Panchayat and article 243 (A to O) was added to the constitution along with a new 11th schedule in the constitution. Thus, the three-tier Panchayati Raj System was given constitutional status by substituting article 243 (A to O) in the constitution. since local governance is a state subject hence the establishment of Panchayati Raj System in the states was made mandatory by the provisions of article 243 (A to O) of the Constitution. As a result of giving constitutional status to the Panchayati Raj. The states were bound to establish and to implement the three tier Panchayati Raj System. However, a lot remains to be done towards the actual implementation of the constitutional provisions establishing a three tier Panchayati Raj.

Steps of Establishment of Urban Bodies:

1.14 As a unit of local self governance, urban local bodies for cities similar to the Gram Panchayats are mentioned in some form or the other in literature and ancient texts. In Kautilya's Arthshashstro, the city was called 'Pur' and its cheif was called "Nagrik"

1.15 Megasthenes, who came to India during the reign of Chandragupta Maura, has mentioned that, In big cities there used to be six institutions of five members each, and to each of these institutions important subjects of human activities were Assigned, such as - Birth and death registration, looking after the foreigners and Entertainment, etc. During the Mughal empire, in the medieval period, the kotwal, in addition to his responsibilities of magisterial, Police and financial matters, also looked after many works related to civic amenities.

1.16 In the above references, there is mention of the presence of cities and a system similar to the municipalities, but there is no mention of this system being in the hands of the local people. Thus, it can be said that the structure of urban local bodies along with their roles and responsibilities were not vested in the representative body of the citizens, but in officials appointed by the rulers.

1.17 The history of modern municipal bodies in India begins with the establishment of the first municipal corporation in the former Presidency city of Madras in 1668. This was followed by establishment of similar municipal corporations in 1726 in then Bombay and Calcutta city. In 1850, municipal reforms act was passed by the Indian government, introducing councilor system with limited administrative powers. In 1882, Lord Ripon, the then Viceroy of India, passed a resolution related to local self governance in which, municipal governance in India was given a more democratic

form than before, however, during the British colonial period municipal bodies were neither representative nor they had the real power. In 1935, by the Government of India Act, local self governance was brought under the ambit of the state or provincial government and the powers of local self government were expanded.

Constitutional Status to Urban Bodies:

1.18 After the independence, the need for the formation of Urban bodies for local self Governance in urban areas was felt, although Gram Panchayats are mentioned under Article 40 in the Directive Principles of state Policy but except for the implicit provision for local self governance in Entry 5 of state list, there was no specific reference to municipalities in the Constitution. In the Entry 5 of state list, the responsibility of the subjects of local self government has been given to the states.

Box 1.2 : Part IXA, The Municipalities, Article 243(P to ZG)

Formation - Three types of municipalities will be formed in every state - Nagar Panchayats from rural to urban areas, Nagar Palika Parishad for small Urban areas and Nagar Nigam for large urban areas.

Composition - All seats in the municipality will be Filled by the persons elected by direct election. Each municipal area will be divided into wards.

Formation of ward committees - ward committees will be formed in the municipalities with population of more than 3 lakhs.

Term - The term of the municipalities will be five years. municipal elections will have to be held within six months from the date of dissolution.

Powers and responsibilities - The state shall confer on the municipalities such powers and authority as may be necessary to enable them to function as institutions of self government and to carry out the 18 Subject's listed in the 12th schedule.

Power to impose taxes - The state shall provide the municipalities with the power to levy taxes, duties, tolls and fees. The state will assign funds from it's own tax, duty, toll and fee receipts to the municipalities as per requirement and will be able to give grants from the consolidated fund of the state.

State Finance Commission - SFC will be constituted in every five years to review the financial status of the Municipalities.

Formation of District Planning Committee - District Planning Committee will be formed to consolidate the plans prepared by Panchayats and municipalities at the district level.

1.19 The 74th Constitutional Amendment Act 1992 relating to Municipalities was enacted to provide a Common framework for urban local bodies and to strengthen the functioning of the bodies as effective democratic units of self-governance. A new “part 9 (A)” relating to municipalities was added to the constitution by the 74th Constitutional Amendment. Part 9(A), *inter alia*, Provides for three types of municipalities - Nagar Panchayats for the areas transitioning from rural to urban areas, Nagar Palika for small urban areas and Nagar Nigam for large urban areas.

Chhattisgarh State Enacted Panchayati Raj Act:

1.20 Chhattisgarh Panchayati Raj Act 1993, is in force in the State of Chhattisgarh for the implementation of the 73rd constitutional Amendment. it is applicable in the entire state from 01 November 2001 through the adaption of laws order 2001. The Panchayati Raj Act has been amended from time to time. The latest amendment is the "Chhattisgarh Panchayati Raj Act 2019" through which provisions related to PESA have been implemented in the state. It is effective in the state from 8th August 2022. Municipal Corporation Act 1956 and Municipality Act 1961 are in force in the State. For the implementation of the 74th Amendment Act 1992, the same acts already prevalent in the local bodies are in force in the state.

Formation of SFC

1.21 There is a provision in Article 243(l) of the constitution for the formation of a SFC within five years to review the finances of local bodies, which includes both Panchayati Raj Institution and Urban bodies and give suggestions for the economic strengthening of these bodies.

Formation of 4th SFC of Chhattisgarh

1.22 Persuant to section 3 of the CGSFC Act 1994, by Chhattisgarh Government Finance Department's Notification No. 37/14/Fin/Fcc/Four/2021, Nava Raipur, Atal Nagar, Dated 29 July 2021, the 4th SFC was constituted under the Chairmanship of Shri Serjius Minj, Former Additional Chief Secretary, C.G. Govt. and Former Chief Information Commissioner, Chhattisgarh, to submit the report by 31st July 2023 (Annexure 1.1). By Chhattisgarh Government Finance Department's Order no. 87/1037/Est./four Atal Nagar Dated 02/02/2022, Shri Satish Pandey, retired State Finance service officer, Government of Chhattisgarh was appointed to the post of Secretary of SFC (Annexure 1.2). Accordingly, Shir Serjius Minj took charge as the Chairman of the SFC on 31st July 2021 and Shri Satish Pandey took charge as the secretary of the SFC on 4th February 2022. By the order Dated 28/07/2023 of the

Govt. of C.G., finance Deptt., the tenure of the commission was extended till 31/10/2023 and by the order dated 15/01/24, the tenure of the commission was extended till 31/01/2024 (Annexure 1.4,1.5)

Terms of Reference for SFC

1.23 While issuing the terms of reference of the 4th SFC as per Chhattisgarh Government, Finance Department's notification Dated 23rd March 2022, Notification Publication Dated 04th April 2022, it was expected that, in exercise of the power conferred by Article 243 (I) and 243 (Y), the 4th SFC will review the financial status of Panchayats and municipalities and make recommendations regarding the Annexure 1.3.

Functioning of SFC

1.24 The SFC has adopted a definite modus operandi and study methodology for study of various economic and development related parameters of the state, due to which valid and reliable results have been obtained for the goals, objectives and questions related to study. The methodology adopted by the SFC has been interrelated and inclusive to study various parameters.

1.25 The terms of reference issued by the government for the SFC mentioned that "The commission shall state on what basis it has arrived at his findings" Chhattisgarh Govt. finance Dept. notification dated 23. March, 2022, Gazette publication dated, 4 April 2022, point No. 3 therefore all the stakeholders who are to be affected by this report or the recommendations of SFC, should be aware of the methodology of SFC.

1.26 According to Article 243(I)(3) of the constitution, the SFC shall determine its own procedure for making recommendations. In other words, it can be said that SFC may determine its own method of functioning for discharge of its responsibilities. Each commission will determine its own methodology on accordance with its terms of references. Accordingly, the SFC has also determined its methodology.

1.27 To reach its findings, SFC first of all, determined its methodology. Following procedures/point have been included in the methodology -

- Overall review of the state's economy.
- Economic review of local bodies.
- Discussion with representatives of local bodies.
- Discussion with the concerned Government departments.
- Receiving memorandum from concerned Government departments.
- Making contacts with expert organizations and receiving suggestions from them.

- Organizing studies on topics related to SFC.
- Participation in the seminars and conclaves.
- Studying the methodology of other SFC's
- Dialogues with general public.
- Role of local bodies with reference to the parameters of global devolvement.

Review of State's Economic Condition

1.28 The Fourth State Finance Commission has made a detailed analysis of the economic situation of the state under the updated FRBM Act. starting from the economic condition of the state at the time of formation of the state, with reference to the budget papers of all the years, economic analysis and recommendations of the Central and State Finance commissions, their impacts on the financial position of the state, the need for development and the possibilities inherent in the economic scenario have been evaluated.

Economic Review of Local Bodies

1.29 Online information related to the physical facilities being provided by the local bodies and their financial status was obtained in a detailed questionnaire through software and mobile app and the information thus obtained was analyzed. For this, in-built arrangements were made in the software. This was an innovative effort of 4th SFC. Based on the data received, a detailed review of the physical facilities and economic condition of the local bodies was done.

Discussions with Representatives of Local Bodies

1.30 In order to obtain suggestions from the public representatives, administrative officials and employees of the local bodies, The 4th SFC organized meeting first at the divisional headquarters and then at the selected districts and Janpad Panchayat level. Detailed account of the meetings can be seen in Annexure-1.6. In the meetings, suggestions were obtained from Panchayati Raj Institutions by discussing with Jila Panchayat's and Janpad Panchayat's Presidents, Vice-presidents, members, Chief Executive officers of Janpad's and Jila Panchayat's. Sarpanch of Gram panchayat's and secretaries of Panchayat's. Similarly, suggestions were received from mayors, presidents of municipalities and nagar-panchayat's, councilors, commissioners of Nagar Nigam and chief municipal officer's in urban bodies.

Discussion with Government Departments

1.31 The commission tried to understand the situation by having in-depth discussions with the administrative departments related to local bodies and those departments which are responsible for providing assigned revenue to the local bodies.

Receiving Memorandum from Concerned Government Departments

1.32 Memorandums were received from the major departments related to the commission, to know the information required by the SFC, their suggestions, expectations or any special demands of the department to SFC. A letter was written to a total of seven departments - Finance, Panchayat and Rural, Development, Urban Administration and Development, Excise, Registration, Revenue and mineral and mining department to provide memorandum in the prescribed format. Memorandums were provided to the SFC by all concerned departments.

Contacting and Receiving Suggestions from Expert Organizations

1.33 To determine its methodology, edit processes involved in the methodology, and get suggestions on other subjects, the 4th SFC consulted and made contacts with national and international level expert organizations, like UNICEF National Institute of Public Finance and Policy, New Delhi and National Institute of Rural Development and Panchayati Raj Hyderabad. Discussions were held with these Institutions specially on the working methodology of the SFC, organization of seminars and consultations and points to be kept in mind while writing the report.

- UNICEF - Discussions were made on the, need and importance of including the indicators related to children in the Fund transfer formula adopted by the SFC.
- National Institute of Public Finance and Policy (NIPFP) - suggestions were sought from institute on report writing, organizing studies, organizing seminars and consultations, working methodology of the commission, study tours to other states and other subjects.
- National Institute of Rural Development and Panchayati Raj (NIRDPR) – discussions related to working methodology of State Finance Commission, report writing and major points to be noted by the commission were made with the institution.

Studies Sponsored by the SFC

1.34 For the economic review of local bodies, the 4th SFC sponsored studies on the subjects related to the scope of work of the commission. With the aim of promoting

local research capacity, Agreements (MOU) were signed with professors/researchers posted in local educational institutions to conduct studies. Two studies on Gram Panchayats and one on urban bodies were sponsored by the SFC.

1. **Benchmarking of Gram Panchayats of Rajnandgaon and Bastar District on the service level.** (Miss Ragini, Lecturer, Commerce, Government. Digvijay College Rajnandgaon, Chhattisgarh.)
2. **“A study on Increasing own source of Revenue of Gram Panchayats of Chhattisgarh. Using Contingent Valuation Method”** (Dr. Vinod Kumar Joshi, Professor, Economics, Dr. Radhabai Naveen kanya Mahavidyalaya, Raipur, Chhattisgarh)
3. **“A study on the Finances of the Municipal Corporations and Peoples satisfaction of Chhattisgarh”** (Dr. Ravindra Bramhe, Professor and Head of the Department, Economics Study Centre. Pt. Ravishankar Shukla University, Raipur, Chhattisgarh)

Participation in Seminars Conclaves

1.35 During its tenure, the 4th SFC participated in seminars and conferences, organized by specialized institutions at the national level. Participation in seminars and conclave helped the commission to perform its responsibilities in a better way. On an invitation, chairman, 4th SFC participated and expressed his views in the seminar organized by National Institute of Public Finance and Policy, Delhi on April 24, 2022 on the topic “Need and importance of Including child-related indicators in the transfer formula by state Finance commissions”. The conference sponsored by the ministry of Panchayati Raj, Government of India and organized by the National Institute of Rural Development and Panchayati Raj, Hyderabad, on 29-30 November 2022 on the topic “National Conference on state Finance commissions” were attended by the officers of the commission, under the leadership of Chairman, 4th State Finance Commission.

Study of the functioning of other states and state finance commissions

1.36 Each state has its own statute for the formation of the state finance commission, its management and implementation of the recommendations of the commission. Similarly, each state finance commission may have its own methodology to attain at recommendations. Therefore, the study of functioning of other state finance commission, and the method of implementation adopted by the states on the recommendations, could be beneficial for any state finance commission, to give

perspectives to its thoughts. That is why, the fourth state finance commission decided to conduct study tour of some states.

Madhya Pradesh

- 1.37** At first, a study tour of Madhya Pradesh was conducted by the fourth state finance commission. Under the study tour, the commission firstly received information about the process of action on the recommendations of the commission from the officials of the finance department, the nodal department of the state finance commission, there after information regarding functioning of commission received from former officials of fifth state finance commission. In the second phase, the commission visited the municipal corporation Indore and discussed in detail with the officials about the journey of achieving the first position in the country in the category of cleanliness for the past six years.
- 1.38** Indore municipal corporation officials provided in detail information to the commission about solid waste management and the income and the expenditure of the corporation. The story of Indore municipal corporation achieving the first position in the country in the field of cleanliness and maintaining the first position for six years is exemplary and inspirational for other urban bodies.

Odisha

- 1.39** The second visit was made by the commission to the state of Orrisa. Firstly, a detailed discussion was held about the process and methodology of preparing the report of the 5th SFC of the state of Orrisa, with the officials of the Finance, Panchayat, health, engineering and urban administration development department.
- 1.40** Dialogue was made with the officials of the Puri Nagar Palika Parishad on the availability of basic facilities and economic resources for the visitors and tourists coming to Puri.

Maharashtra

- 1.41** In Maharashtra, critical information about the functioning of Gondia Municipal Council and the Income and Expenditure of the council was Obtained by the officials of the commission.

Dialogue with General public

- 1.42** For the SFC to reach its recommendations, the information received from all the stakeholders plays an important role. The SFC contacts all the stakeholders through various mediums. To make contacts with General public, various mediums of social

media like Facebook, Twitter, WhatsApp and Cellphone etc. were used by the commission. Through these mediums, the commission publicized it's activities and made people aware of the functioning of the commission and suggestions were sought from them regarding local bodies.

Role of local bodies in the context of global development standards

- 1.43** The Sustainable Development Goals - 2030 is an ambitious program to be achieved by the global community. It was accepted by 193 countries including India and the 70th meeting of the United Nations General Assembly and Adopted by the government of India in January 2016.
- 1.44** Major Sustainable Development goals include elimination of poverty in all it's forms, end of hunger as well as improved nutrition and food security, public health, inclusive and quality education, gender equality and Woman empowerment, sanitation and availability of clean water etc. It is worth noting that the main aspect of global concern is that what should be the role of local governments and local stakeholders along with global organizations like the United Nations and governments of different countries in achieving the sustainable development Goals? This has been a major point of discussion in various global programs. Therefore, it is necessary to assess the role of local bodies and their level of participation in achieving the above Goals.
- 1.45** If we look at most of the goals of Sustainable development goals- 2030, most of these goals - end of poverty and hunger, Sanitation, hygiene and availability of clean water, food security, gender equality and women empowerment as well as public health, nutrition and food securities are the subjects which are directly related to the responsibilities and duties of local bodies. Therefore, it would not be an exaggeration to say that the success of the possibilities of achieving sustainable development goals depends on the efficiency, effectiveness and financial autonomy of local bodies. In the above context, the responsibility of the SFC, increases in the sense that, what should be the form and nature of the "suggestions for Increasing the efficiency of the local bodies and their financial and administrative capacity which will be relevant to the National and local policy making, along with the global vision in the context of achieving development goals-2030.
- 1.46** The Thirteenth Central Finance Commission has suggested to prepare the report in a prepared format/model made by the 13th Central Finance Commission on the basis

of the reports of the SFC's. The suggested format / model is very detailed and sufficient on the basis of which a slandered report of the SFC can be prepared. Therefore, the 4th SFC Chhattisgarh has prepared its report on the basis of the format/model of the report suggested by the 13th Central State Finance Commission, which is divided into a total of thirteen chapters.

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