

Chapter – 3

Status of Implementation of The Recommendations of Previous Finance Commissions

- Action take on the Recommendations of financial devolution
- Action take on the other Recommendations

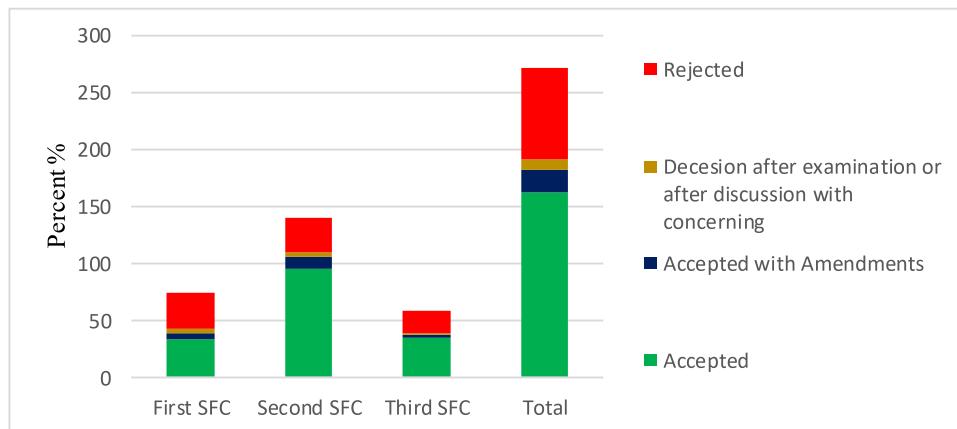
- 3.1** Chhattisgarh became a separate state on 01 November 2000, after separation from undivided Madhya Pradesh. After becoming Separate state, Recommendations of the first Finance Commission constituted by the government of Madhya Pradesh were applicable in Chhattisgarh from 01st November 2000. By 1st SFC of Madhya Pradesh, Recommendations were given for adjudication period from 01st April 1996 to 31th March 2001.
- 3.2** After state reorganization Four Finance Commission have been constituted. first two-member state Finance Commission in state constituted on 22nd August 2003 in Chairmanship of Mr. T.S. Sinhdev. The other member of commission was Mr. Paras Chopda. After Sometimes commission was re-constituted and one-member commission constituted in chairmanship of Mr. Virendra Pandey submitted its report on May 2007. By first Finance Commission recommendations were made for time period from 1st April 2005 to 30th march 2010.
- 3.3** Two-Member 2nd SFC constituted on 23rd July 2011 in Chairmanship of Mr. Ajay chandrakar. Mr. Ashok Parakh appointed as member of the Commission. Second Finance Commission was expected to submit its report till 31st July 2012 for five-year time period starting from 1st April 2011, but on the request of commission time limit for submission of recommendations extended till 31st march 2013. with change in adjudication period of commission from 2011-16 to 2012-17 the tenure of commission was also extended till 31st march 2013. After submitting its interim report on November 2012, the Second Finance Commission submitted its final report on 31st March 2013.
- 3.4** Two-member 3rd SFC constituted on 20th January 2016 in Chairmanship of Mr. Chandrashekhar Sahu. Mr. Naresh Chandra Gupta appointed as member of commission. The original tenure of commission was prescribed till 31st January 2017 for giving recommendations for period from 01st April 2017 to 31st March 2022, but after extension in tenure of Commission till 30th September 2018, Third State Finance Commission Submitted its report to the government on September 2018.
- 3.5** The recommendations of the Second State Finance Commission, which were effective from 1st April 2012 to 31st March 2017 were extended by the government till 31st March 2020 and the recommendations of the Commission were accepted for the period from 01st April 2020 to 31st March 2025.

Box 3.1			
Previous SFCs of Chhattisgarh			
Details of SFC's	Formation Date	Report Submission Date	Award Period
First	22-08-2003	May 2007	1 st April 2005 to 31 st March 2010 Revised Award Period 1 st April 2005 to 31 st March 2012
Second	23-07-2011	Interim Report November 2012 Final Report 31 st March 2013	1 st April 2012 to 31 st March 2017 Revised Award Period 1 st April 2012 to 31 st March 2020
Third	20-01-2016	September 2018	1 st April 2017 to 31 st March 2022 Revised Award Period 1 st April 2020 to 31 st March 2025

- 3.6** Total 91 recommendations were made by First Finance Commission out of which 74 recommendations related to rural and urban local bodies have been included in the Action Taken Report made by government. Of these, 30 recommendations were relate to rural local bodies and 44 to urban local bodies. 17 recommendations were created to State finances are not included in the action taken report. Out of 74 recommendations included in the action taken report, 33 recommendations were accepted and 32 recommendations were not accepted. It was decided to present 6 recommendations with modifications and 3 recommendations for decision after examination.
- 3.7** Total 140 recommendations were made by Second State Finance Commission including 55 recommendations for Panchayati Raj institutions and 85 for urban local bodies. Of these 95 recommendations were accepted and 11 recommendations were accepted after partial Modification. 4 Recommendations were to be decided after discussion with concerning departments. Rest 30 recommendations were not accepted. The Justification for not accepting this recommendation have been depicted in Action Taken Report.

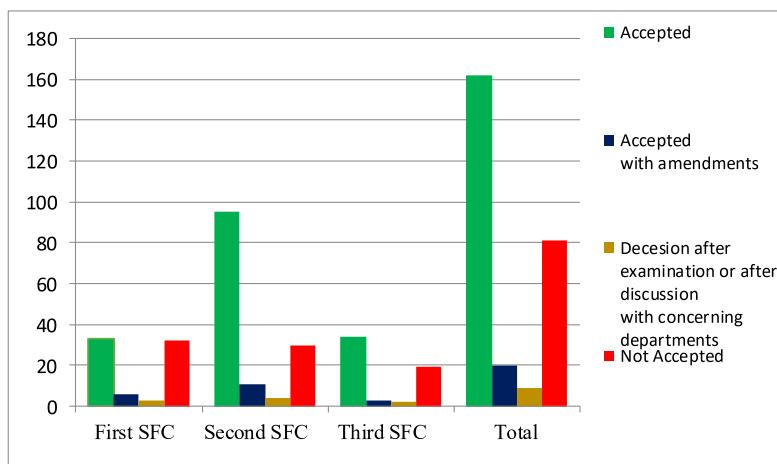
Table 3.1
Action taken on the recommendations of previous commissions

No.	Particular	First	Second	Third	Total
1	Accepted	33	95	34	162
2	Accepted with amendments	06	11	03	20
3	Decision after examination or after discussion with concerning departments	03	04	02	09
4	Not accepted	32	30	19	81
Total		74	140	58	272



- 3.8** Total 58 recommendations were made by Third State Finance Commission out of which 18 recommendations were related to Panchayati raj institutions and 40 recommendations were related to urban local bodies. Out of Total Recommendations, 34 recommendations were accepted and 3 recommendations were accepted with modification. 02 recommendations were to decide after examination and 19 recommendations were not accepted showing reason for non-acceptance.
- 3.9** Most of the Recommendations of the three State Finance Commissions have been accepted so far in chhattisgarh. Out of the total 272 recommendations made by the three commissions, 60 percent of the recommendations have been accepted by the government. 7 percent of recommendations have been accepted with partial modification. 3 percent of the recommendations were kept pending for decision after discussion with the concerned department and 30 percent of the recommendations have not been accepted by the Government. Maximum, 76% of the recommendations of the Second State Finance Commission have been accepted by the Government, in which 68% of the recommendations have been accepted in the original form and 8% with Partial modifications.

Percentage of accepted and rejected recommendation



- 3.10** While discussing the action taken on the recommendations of the previous state finance commissions the recommendations related to financial transfer made by previous recommendations, only the recommendations of the third Finance Commission three commissions have been studied, but under non-financial have been reviewed.

Action Taken on Recommendations of Devolution

First State Finance Commission

- 3.11** The first State Finance Commission, for its award period of 2005-06 to 2009-10, made recommendations for provision of 8.29% share of state's own Net Tax Revenue to local bodies. Based on the population of the year 2001. It was recommended to provide 6.63% of its own net tax revenue to Panchayati Raj Institutions and 1.66% to urban local bodies. Acting upon recommendation of commission, devolution of 6% share of it's own net tax revenue accepted by the state government. Based on this, the amount determined was distributed vertically among the Panchayati Raj Institutions and urban local bodies, according to the population of 2001 on the basis of their mutual ratio in the total population of the state. Thus, the state government provided 4.79% of the state's own net tax revenue to rural local bodies and 1.21% to urban local bodies.

Table 3.2
Action taken on the recommendations of previous commissions

(In % of State's own net tax revenue)

S. No.	Particular	First	Second	Third
1	Panchayati Raj Institutions	6.63	6.85	6.91
2	Urban Local Bodies	1.66	1.15	2.09
Local Bodies		8.29	8.00	9.00

- 3.12** In addition to the percentage of own net tax revenue, The First State Finance Commission also recommended an establishment grant of Rs. 71.81 crore and a per capita grant of Rs. 166.48 for rural local bodies for the years from 2005-06. The establishment grant was not accepted by the government and for the per capita grant, it was said that it would be placed before the Thirteenth Finance Commission for assistance. For the implementation of state and central Government schemes, the commission had recommended, providing agent grant of 3% of the scheme cost to local bodies. The State Government requested to 13th Finance Commission to provide 3 percent agent grant for centrally funded schemes.

Second State Finance Commission

- 3.13** The second State Financial Commission recommended for devolution of 8% of the state's own net tax revenue to local bodies. According to the report, the 8 percent recommended amount for the award period is Rs. 5793.48 crore. Out of the above divisible pool, it was recommended to provide 6.85% of the state's own net tax revenue i.e. Rs. 4453.73 crore to Panchayati Raj Institutions and 1.15% i.e. Rs. 1399.75 crore to Urban Local Bodies. This recommendation of the commission for transfer of the above amounts was fully accepted by the State Government.
- 3.14** Another important financial recommendation made by the second State Finance Commission was that the entire amount given to Gram Panchayats should be provided unconditionally for lighting, tap water supply, rural sanitation and maintenance of Gram Panchayat properties, but the recommendation was not accepted by the state Government keeping the then prevailing system as it was.

Third State Finance Commission

- 3.15** Out of the total 58 recommendations of the Third State Finance Commission, 37 accepted recommendations (which also include the accepted recommendations with modifications) are related to a total of 5 Departments. Of these recommendations ,9 recommendations are related to Panchayat and Rural Development Department. 19 recommendations are related to Urban Administration and Development Department and 7 recommendations are related to Finance Department. One recommendation pertains to the Public Health and Engineering Department and one to the Revenue Department.

Table 3.3
Department wise details of the recommendations of the third SFC

S. No.	Department	Accepted	Accepted with modification	Decision after examination	Not accepted	Total
1	Panchayat and Rural Development	7	2	-	7	16
2	Urban Administration and Development	19	-	2	10	31
3	Finance	6	1	-	2	9
4	Public Health and Engineering	1	-	-	-	1
5	Revenue	1	-	-	-	1
Total		34	3	2	19	58

- 3.16** The Third State Finance Commission recommended devolution of 9 percent of the State's own net tax revenue to local bodies for the award period from 2017-18 to 2021-22, allocating 6.91% to Panchayati Raj Institutions and 2.09% to Urban Local Bodies. On this basis, in its recommendation, the Third state Finance Commission estimated a transfer of Rs. 11679.03 crore for the 5 year of the Award Period. From this divisible pool, the estimated amount to be transferred to rural local bodies and urban local bodies is Rs. 8966.92 crore and Rs. 2712.11 crore respectively. Year-wise details of the state Finance Commission are given in Table no. 3.4

Table 3.4
Recommended estimated amount by 3rd Finance Commission

Year	State's own net tax revenue	Divisible pool	(RS. In Crore)	
			Panchayati Raj Institution	Urban Local Body
2017-18	20,610.17	1,854.92	1,424.17	430.75
2018-19	22,906.40	2,061.58	1,582.84	478.74
2019-20	25,609.36	2,304.84	1,769.61	535.23
2020-21	28,631.26	2,576.81	1,978.42	598.39
2021-22	32,009.75	2,880.88	2,211.88	669.00
Total	1,29,766.94	11,679.03	8,966.92	2,712.11

- 3.17** The original award period of the Third State Finance Commission was for 5 years, starting from April 1st, 2017 till March 31st 2023. But as per the recommendation of the 13th Finance Commission that there should be parity between the reports of the State Finance Commissions and the award period of the Central Finance Commission and despite the submission of report of commission was made in September 2018, the action taken upon the report is on October 2019, causing the report of the third Finance Commission was adjourned for the period from 1st April 2020 to 21st March 2025, similar to the award period of the Fifteenth Finance Commission. Further the accepted recommendations of the Second State Finance Commission were extended for the financial years 2017-18, 2018-19 and 2019-20.
- 3.18** Among other monetary recommendations of the Third State Finance Commission, recommendation related to give a grant- in- aid of Rs. 20 lakhs to all 146 Janpad Panchayats was accepted, but recommendations of grant-in-aid of Rs. 5 lakh each year to the Panchayats of fifth scheduled areas for fulfilling the basic facilities, and special grant of Rs. 5 lakh to those gram panchayats and urban local bodies with two-third or more female elected representatives were not accepted by the government on the basis that the recommendation to increase the amount to be transferred to

local bodies from 8 percent to 9 percent has already been accepted, hence there is no need to give additional amount separately.

- 3.19** For district-wise allocation of funds to Panchayati Raj Institutions, Third Finance Commission came up with different criteria. In the recommended formula, 60% of weightage assigned to population in census 2011, 15% to geographical area, 10% to SC/ST population. Of 2011 and 10% of weightage assigned to deprivation index related to Socio-Economic and Caste Census of 2011. In place of recommended criteria, government decided to keep following the criteria recommended by the 2nd Finance Commission as Population (60%), Geographical area (20%), population of scheduled cast and scheduled tribe (10%) and the number of households living below the Poverty line (10%) for the award period of 3rd finance commission.
- 3.20** Among the different levels of three-tier Panchayati Raj-Gram Panchayats, Janpad Panchayats and Zila Panchayats, 3rd Finance Commission had recommended to divide 80% of the recommended amount to Gram Panchayats, 15% to Janpad Panchayats and 5% to Zila Panchayats respectively. Since, most of the works concerned with civic facilities are performed by the Gram Panchayats, hence, as per recommendations of 2nd finance commission, government decided to follow prevailing system of provision of 5% of recommended amount to Zila Panchayats, 10%. to Janpad Panchayats and 85%. to Gram Panchayats respectively.
- 3.21** Among Urban Local Bodies, Third Finance Commission recommended to divide the recommended amount on the basis of population (70%), geographical area (20%) and performance grant (10%), but government decided to follow the prevailing system of division of recommended amount on the basis of population (70%), geographical area (10%), slum population (10%) and revenue efforts (10%).

Eligible and Actually Transferred Amount During 2017-22

- 3.22** As, the recommendation of the Third State Finance Commission being accepted by the government for the time period from 2020 to 2025, the recommendations of the 2nd State Finance Commission were in force from 1st April 2017 to 31st March 2020, while recommendations of the 3rd Finance Commission were in force from 1st April 2020 to 31st March 2025.
- 3.23** The 2nd and 3rd State Finance Commissions have recommended for devolution of 8% and 9% of the State's Own Net Tax revenue to local bodies respectively. From the year 2017 to 2020, as per the recommendations of the 2nd SFC, 6.85% of the state's own net tax revenue is to be transferred to Panchayati Raj institutions and 1.15% to

urban local bodies. Similarly, from 2020-2022 state is to transfer 6.91% and 2.09% of its own net tax revenue to Panchayati Raj institutions and Urban Local Bodies respectively as recommended by the Third State Finance Commission.

- 3.24** To calculate the amount eligible for transfer on the recommendations of the State Finance Commission, first of all, state's own net tax revenue (Annexure 3.3) is obtained by subtracting the collection cost of taxes (Annexure 3.1) and amount directly transferred to local bodies as assigned receipts (Annexure 3.2) from state's own tax revenue. The state's own tax revenue was estimated at Rs 147462.41crore for the years from 2017-18 to 2021-22 by the Third SFC. Against this, the total actual receipt of own tax revenue during this period has been Rs. 113412.71 crore. The main reason for the state's own tax revenue being lower than anticipated is the lower growth rate of the state economy in 2019-20 and 2020-21 due to COVID.
- 3.25** As per the recommendation of the state Finance Commission, the eligible amount payable to local bodies from the state's own net tax revenue for the period 2017-18 to 2021-22 is Rs. 8880.63 crore, Out of this Rs. 7233.42 crore is the share of Panchayati Raj Institutions and Rs. 1647.21 crore is the share of urban bodies. Year-wise details of eligible amount payable to local bodies are given in Table No. 3.5.

Table 3.5
Amount eligible for transfer on the recommend of the SFC

(Rs in Crore)

Year	Panchayati Raj Institution	Urban Local Bodies	Total
2017-18	1,242.45	208.59	1,451.03
2018-19	1,376.56	231.10	1,607.67
2019-20	1,402.06	235.38	1,637.64
2020-21	1,468.42	444.14	1,912.56
2021-22	1,743.93	528.00	2,271.93
Total	7,233.42	1647.21	8,880.63

- 3.26** As per the recommendation of the State Finance Commission, during the period 2017-18 to 2021-22, there was a transfer of Rs.5986.55 crore to the local bodies from the state's own net tax revenue against the eligible payable amount of Rs. 8880.63 crore. Thus, 67 percent of the eligible amount was actually transferred to the local bodies. Among local bodies, Panchayati Raj Institutions have an entitlement of Rs. 7233 crore in the last 5 years. Out of this, actual transfer of Rs. 4031.44 crore has been made to these institutions. On contrary, the actual transfer to urban local bodies was Rs. 1955.11crore against 1647.21 crore during the same period. year-wise details of transferred amount are given in table No. 3.6

Table 3.6
Actual transferred amount to local bodies on the recommendation of SFC

(Rs. In Crore)

Year	Panchayati Raj Institution	Urban Local Bodies	Total
2017-18	945.72	441.55	1387.27
2018-19	839.07	299.76	1138.83
2019-20	748.47	320.73	1069.20
2020-21	617.93	441.62	1059.54
2021-22	880.26	451.45	1331.71
Total	4031.44	1955.11	5986.55

- 3.27** Between 2017-18 to 2019-20 in 3 years, 6.12% of state's own net tax revenue was actually transferred to the local bodies against 8% of recommended devolution of 2nd State Finance Commission. Similarly from 2019-20 to 2021-22 in two years, against 9% of recommended devolution of 3rd State Finance Commission, Only 5.10% of state's own net tax revenue was actually transferred to the local bodies. If we look at the average of the last five years, 5.74% of the own net tax revenue of the state has been transferred to the local bodies. The year-wise amount transferred from the state's own net tax revenue in the last 5 years can be seen in the table 3.7.

Table 3.7
Percentage of Actually transferred amount to the local bodies
(In Percentage Of State's own net tax revenue)

Year	Recommended Percentage	Actual Percentage of Devolution
2017-18	8	7.65
2018-19	8	5.67
2019-20	8	5.22
2020-21	9	4.99
2021-22	9	5.19

Action Taken on Other recommendations Of Third SFC

- 3.28** After the presentation of the report by the third state Finance Commission on September 2018, the Action Taken Report (ATR) was presented by the Finance Department on October 2019. Three years after the submission of the action report even as of December 2022. The current status of the action taken by the departments on the accepted recommendations does not appear to be satisfactory. Even in the context of accepted recommendations, words like "Proposal will be presented" or "Will be considered" have been used in the action taken by the departments. when the recommendations have been accepted or not been accepted

by the finance department on the basis of the opinion received by the concerning department, then the departments should have no option other than taking positive action on the Accepted Recommendations. Details of the action taken by the concerned departments on the accepted recommendations of the Third State Finance Commission are given in Annexure 3.4.

- 3.29 The Action taken Reports on the reports of the 1st, 2nd and Third Finance Commissions were submitted in 26, 4 and 13 months respectively. keeping in view, the time taken in the submission of action taken reports and lack of satisfactory actions on accepted recommendations, there should be proper system to ensure the timely action on accepted recommendations and to monitor the implementation of such recommendations.
- 3.30 Formation of a cell under the Finance Department was recommended by the 1st and 2nd finance commissions for this purpose. The second Finance Commission has recommended that the committee in the chairmanship of chief secretary which monitors the utilization of the funds allocated by the 13th Finance Commission, should also perform the monitoring of the amount to be transferred to the local bodies by SFC.
- 3.31 As per the recommendations of previous commission, State Finance Commission cell has been formed under the finance department in the state. There is a need to expand the responsibilities of the formed cell. **The Commission recommends that, to ensure timely action on the reports and recommendations of the State Finance Commission, an action taken report should be prepared by posting a competent level officer in the State Finance Commission Cell, constituted under the Finance Department and according to the Action Taken Report, the work of regular monitoring of the Action Taken by the concerned Departments on the accepted recommendations should be included in the responsibilities of the cell.**
- 3.32 For the economic review of local bodies by the State Finance Commission, information has been obtained through online portal and mobile app. In view of the large number of Gram Panchayats and non- availability of computer hardware with Gram Panchayat secretaries, a web portal and mobile app were designed to get informations related to Gram Panchayats. Due to comparatively less numbers of District Panchayats, Block Panchayats and Urban Local Bodies and availability of computers, only web portal was created to get information. Information received through the web portal, real time report is received in Pre-determined format. portal and Data are separately secured in the Data centre of CHIPS.

- 3.33** Through this portal, financial and physical review of the funds being provided by the central and state Finance Commission can be done without or with partial modifications. As well as, the data required for economic review of local bodies, can be obtained annually through this portal and on the formation of the upcoming state finance commission, these data will easily be available for the commission. If, the succeeding SFC wants to get additional information, then it can be obtained also through portal with partial modification. Hence, the **State Finance Commission recommends that, the Finance Department should maintain the website of the State Finance Commission in its present form in a suitable manner till the formation of the next State Finance Commission, so that the information related to Chhattisgarh State Finance Commission be easily available for other SFCs and general researchers. This task should be assigned to the State Finance Commission Cell constituted under Finance Department.**
- 3.34** It is very important to monitor the implementation of action statement presented by the government on the recommendations of the state finance commission. State Finance Commission recommends that, (Recommendation 3.3) to monitor the action taken by the concerned department on the recommendation of state finance commission, a committee comprises of the secretaries of the Finance department. Panchayat and rural development department urban administration and development, revenue, minerals and mining and Commercial tax department should be formed in the Chairmanship of chief secretary. Provide secretarial office facilities to the state Finance Commission cell constituted under the Finance department.
- 3.35** Several recommendations of the Third State Finance Commission have been accepted on the basis of the opinion of the concerned departments in the Action Taken Report, but regarding the implementation of the ATR, 4th State Finance Commission have been informed by concerned departments with following remarks – “it will be proposed by the department”. “Further Action has not been taken” or “will be considered” or “is currently being taken into consideration”. Report paragraph no. 11.8, 11.21, 12.21 can be seen in Annexure 3.4. There is no other option other than taking action by the concerned departments on the Action Taken Report presented in the Legislative Assembly. Hence, **The commission recommends that, the ‘Local Body and Panchayati Raj Accounts Committee’ of the Legislative Assembly should, among other things, also monitor the implementation of the Action Taken Report presented on the recommendation of the State Finance Commission.**

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