

# REPORT OF THE SECOND STATE FINANCE COMMISSION

## PART-I

### CHAPTER 1

#### Introduction

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##### A brief introduction to the State of Chhattisgarh

1.1 Chhattisgarh was created by way of reorganization of the State of Madhya Pradesh, on the 1st of November, 2000. It has thus completed more than a decade of its existence. The State has been projected as the State of the future because of its immense potential for economic development. The 10<sup>th</sup> largest state in the country in terms of area (135 thousand sq. km.) and 16<sup>th</sup> in terms of population (2.55 crore), it has a favourable land to people ratio. Though the population density of the State increased to 189 per sq. km. as per 2011 census, from 154 in 2001, it is still comparatively low. It has a large tribal population (32%). As much as 44 % of State's land area is covered by forests; the forest cover is nearly 50% if the revenue forests are taken into account. It has vast mineral resources. Twenty eight important minerals occur in the State; as much as 16 % of the coal deposits of the country, 19 % of its iron-ore, large deposits of bauxite, lime stone, quartzite and diamond etc are in this State.

1.2 Chhattisgarh is a power surplus State. The total electricity generation capacity in the State's, including that of NTPC, is nearly 10,000 MW of which the share of State generation is more than 3,000 MW. With about 30,000 MW new generation capacity in various stages of implementation, the State could be the power hub of the country in future. The State has a productive agriculture sector with preponderance of paddy. It has also a good industrial base, though largely based on local mineral resources.

1.3 The economic growth of Chhattisgarh ever since it became a separate State, has been appreciable. The CAGR of State's GSDP (at current price) for the period 2001-02 to 2010-11 has been high at 17.8 % as against 14.68 % for all general category States in the country. The share of the three key sectors i.e. agriculture, industry and services in the GSDP (constant price) during the last five years (till 2011-12) has been 6.29%, 7.18% and 11.17 %

respectively. However, while the 11<sup>th</sup> Five year plan target for services has been exceeded, the target for the two other sectors has not been achieved. In fact, the percentage share of industry in the GSDP is now half of what it was before the 11<sup>th</sup> FYP (14.70 %), at constant prices. The per capita GSDP has grown at 13.61 % (CAGR) during the same period. The per capita income grew, at current prices, from Rs. 18,559 to Rs. 41,667 and is likely to register further growth and go upto Rs. 46,753 in 2011-12.

**1.4** The social development indices of the State have not, however, kept pace with its growth story. These continue to be somewhat sluggish. The poverty ratio is high at 48.70 % as against India average of 27.50 %. The literacy rate which was higher than the all India average in 2001 census, is 71.04 % in 2011 as against all India average of 74.0%. Infant mortality (per 1000 live births) stands at 54 as against all India average of 50. The sex ratio has improved and is 991 as per 2011 census. Life expectancy at birth has increased to 66.8 years. The socio-economic indicators of the State are given in the table below:

**Table: 1.1 : Socio-economic Indicators of Development of Chhattisgarh**

	Particulars	Chhattisgarh	India
1	Density of Population (per sq.km)	189 persons	382 persons
2	Literacy Rate	71.0 percent	74.0 percent
3	Sex Ratio	991	940
4	Life Expectancy	66.8	67.1
5	Tribal population	32.8 percent	8.2 percent
6	Population Below Poverty Line	48.7 percent	27.5 percent
7	Infant Mortality Rate (Per 1000 live births)	54	50
8	Per Capita NSDP / NDP ( 2010-11) at Current price	41,167	54,835
9	Forest Cover ( Area under forests)	44%	23%
10	Area under cultivation	36%	60%

Source: (i) Statistical Abstract of Chhattisgarh. (ii) Human Development Report

**1.5** The State had 18 districts, and now has 27, as many as 9 having been added in 2012. The district-wise profile depicting geographical area, population, sex ratio and literacy rate is given in Annexure 1.1.

#### Local Bodies

**1.6** Table 1.2 gives details of Panchayats (PRIs) and urban local bodies (ULBs) in the State. Panchayats have a long history in Chhattisgarh as may be seen in Chapter-5. Madhya Pradesh was the first State in the country to enact a new Panchayat Act in 1993 incorporating the provisions of the 73<sup>rd</sup> Amendment to the Constitution. This Act was in operation when the new State of the Chhattisgarh came into being in Nov, 2000 and this was adopted by and

made applicable to, the new State. A large part of the State, spread over 88,000 sq.km area (65% of its geographical area), covering 13 districts completely and 5 districts partially, comprising 85 Blocks (out of a total of 146) is in Schedule V. PESA is in operation in these areas.

**Table 1.2 : Number of PRIs and ULBs in 2001 and 2011**

Type of Local Body	2001	2011	Average Area in sq.km	Average size of population (2011)
<b>Rural Local Bodies (PRIs)</b>				
1. Nagar Panchayat	9139	9734	4050	2014
2. Janpad Panchayat	146	146	568	1.34 lakh
3. Jila Panchayat	16	18	8	10.89 lakh
<b>Urban Local Bodies (ULBs)</b>				
1. Municipal Corpn.		10	98	3.22
2. Municipal Council		32	37	40,298
3. Nagar Panchayat		127	22	10,123

1.7 The State has a long history of 145 years of municipal administration. Raipur City was the first city of the State to have a Municipal Council, which was constituted in the year 1867. At the time of independence, municipalities in 8 towns were managing civic affairs, and these were Raipur, Bilaspur, Raigarh, Rajnandgaon, Jagdalpur, Kanker, Ambikapur and Chirmiri. The growth of urbanization in the State has been discussed in Chapter 11.

### State Finance Commission

1.8 The 73<sup>rd</sup> and 74<sup>th</sup> amendments to the Constitution accorded Constitutional status to rural and urban local bodies, provided for continuity in local governance through regular and periodic elections, specified their functional domain, and provided for strengthening their finances. The Constitution envisages that they function as the third tier of Govt. To function truly as units of self-government and live up to their Constitutional mandate, the local bodies need adequate financial resources. Article 243 I of the Constitution of India mandates that the State constitute a State Finance Commission, after every five years, to review the financial position of the Panchayats and recommend devolution of financial resources from the State Govt. to them. Article 243 Y makes a similar provision in respect of Municipalities. The State Finance Commission's primary task is to make an assessment of their financial resources and make recommendations for devolution of funds from the State to them. The second State Finance Commission has been constituted by the State Govt. in pursuance of the

above Constitutional provisions and also the provisions of the Chhattisgarh Rajya Vitta Aayog Adhiniyam, 1994, the State enactment on Finance Commission.

### **First State Finance Commission**

**1.9** The First State Finance Commission (FSFC) was constituted on 22<sup>nd</sup> August 2003 with Shri T.S. Singh Deo as Chairman and Shri Paras Chopra as Member. The State Government reconstituted the Commission with Shri Virendra Pandey as its Chairman on 14<sup>th</sup> July, 2004. No other member was appointed. The Commission submitted its report in the last week of May, 2007 for the period 2005-06 to 2009-10. The State Government took nearly two years to study the report and finally the ATR was submitted to the Vidhan Sabha on 29<sup>th</sup> July, 2009.

### **Second State Finance Commission**

**1.10** The Government of Chhattisgarh constituted the Second State Finance Commission (SSFC), vide Finance Department notification No. 1086/L-8-9/2011/Fin/B-4, dated 23<sup>rd</sup> July 2011 with Shri Ajay Chandrakar, formerly Minister of Panchayat and Rural Development, Higher Education and Parliamentary affairs, as Chairman and Dr. Ashok Kumar Parakh, Economist, as Member (Annexure 1.2). The Chhattisgarh Rajya Vitta Aayog Adhiniyam, 1994, as amended in 2003, has provision for only two members of the Commission, including the Chairman.

**1.11** Shri R.S. Vishwakarma, IAS, Finance Secretary to the State Govt., was in addition, Secretary to the Commission. He was replaced by Shri Awadh Bihari, IAS, Commissioner, Treasury and Accounts, and IG, Registration, on 13<sup>th</sup> April, 2012. On his superannuation on 31<sup>st</sup> December, 2012, Shri H.P. Kindo, IAS Special Secretary, took over as Secretary on 1<sup>st</sup> January, 2013. He was replaced by Smt. Ritu Sain, IAS, on 20-02-2013. She holds this charge in addition to her substantive appointment as Joint Secretary, GAD. The Commission thus never had a whole time Secretary.

**1.12** The recommendations of the SSFC were to cover a period of 5 years, i.e. 2011-12 to 2015-16 and the Commission was required to submit its report by 31<sup>st</sup> July, 2012. It took the Commission some time to mobilize required manpower and other resources, and it could begin its normal functioning nearly six months after its constitution, by January 2012. The Commission took some time and a lot of effort to collect relevant information and primary data from PRIs and ULBs. Since it was not possible to analyse all information and data collected and formulate its recommendations in the short time available, the

Commission advised the State Government to extend the award period of First Commission's recommendations up to 31<sup>st</sup> March, 2012 and revise the award period of the Second Commission from 2011-16 to 2012-17. The Commission made such a recommendation despite the fact that the revised period would not be synchronous with the term of the Central Finance Commission, keeping in view of the fact that the recommendations of the First SFC (2005-10) were given effect to by the State Govt. from the year 2007-08. With the second Commission's term starting from 2011-12, the first Commission's award would have been operational for four years. Secondly, the award period prescribed by the Govt., in any case, was not synchronous with CFC's and since there was a delay of nearly two years, the second Commission's award would have been in effect only for three years. On the advice of the Commission, the State Govt extended the award period of the first SFC by one year to cover 2011-12; and revised the award period of second SFC to 2012-17 by Finance Deptt. Notification Nos. 998/680/2012/Estt/Four and No. 1000/680/2012/Four, both of 15.6.2012 (Annexure 1.3). The State Govt. also extended the term of this Commission upto 31<sup>st</sup> March, 2013 by F.D. Notification No. 1238/680/2012/Estt/Four dated 3.8.2012 (Annexure 1.4).

### **Terms of Reference**

**1.13** The Terms of Reference (TOR) of the second SFC, as given in the Government of Chhattisgarh, Finance Department Notification No. 373.L-8-9/2011/Fin./B-4 dated 13<sup>th</sup> September, 2011 and are as under:-

"1. As per Article 243-I and 243-Y, the State Finance Commission shall review the financial position of the Panchayats and Municipalities in the State and make recommendations to the Governor as to the principles which should govern:

- i) The distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
- ii) The determination of the taxes, duties, tolls and fees which may be assigned as, or appropriated by, the Panchayats and Municipalities;
- iii) The grants-in-aid to the Panchayats and local urban bodies from the Consolidated Fund of the State;

- iv) The measures needed to improve the financial position of the Panchayats and Municipalities including measures for improving the management of available resources and measures for recovery of costs (User-charges)
2. The Commission shall also make recommendations on any other matter referred to it by the Governor in the interest of sound finances of the Panchayat and Municipalities.
3. In making its recommendations, the Commission shall have regard, among other consideration, to:
- i) The fiscal demands on the State Government in view of the Fiscal Responsibility and Budget Management Act, 2005;
  - ii) The Recommendations of the Thirteenth Finance Commission with regard to Local Bodies;
  - iii) The functions and services transferred by the State Government to the Panchayats and Municipalities in pursuance of the constitutional amendments vis-a-vis the transfer of the services of employees engaged in those functions and services
  - iv) The need for providing adequate incentive to Local Bodies for better resource mobilization and financial discipline as well as closely linking expenditure and revenue raising decisions;
  - v) The requirement for speed and effectiveness in the delivery systems of the Panchayats and Municipalities and the possible use of Information Technology and e-governance tools;
  - vi) The need for developing models for capital expenditure to create assets like water supply systems, roads, bridges, minor irrigation schemes, drainage systems, solid waste management systems, etc. and;
  - vii) The importance of standardization of accounting and audit procedures of the Panchayats and Municipalities.
4. The Commission shall indicate the basis on which it has arrived at its findings.
5. The Commission shall make its report available up to or before 31<sup>st</sup> July, 2012 on each of the matters aforesaid covering a period of five years commencing on the first day of April 2011.” (This has been changed subsequently as mentioned earlier to 1<sup>st</sup> of April, 2012).

## **1.14 Methodology and Work Procedure**

Article 243-I (3) of the Constitution provides that the SFCs shall determine their own procedure of work. Accordingly, the Commission evolved its work procedure. The procedure followed comprised collection of primary and secondary data and their analysis; wider consultation with all stake-holders- the local bodies, the concerned Deptts. of the State Govt., elected public representative, NGOs, legislators, Ministers and the people at large; fields visits to see the working of local bodies closely; field studies; consultative workshops, study visits to other States, etc.

## **1.15 Collection of data and information**

The Commission collected macro level data relating to PRIs and ULBs from the concerned Departments i.e. Panchayat and Rural Development (P&RD) and Urban Administration and Development Departments (UA&D) respectively. The Commission collected relevant data relating to finances of municipal bodies from the Directorate of Urban Administration; some aggregate data relating to PRIs from the Director Panchayat; and information regarding training from SIRD and audit from the Local Fund Audit Department.

## **1.16 Collection of micro level data from local bodies**

(1) **Panchayat Raj Institutions:** The Commission prepared detailed and structured questionnaires for collection of information/data on PRIs. The response to the questionnaires was as follows: Zila Panchayat 18 (100%), Janpad Panchayat 109 (75%) and Gram Panchayat 5,427 (55%). The Commission selected a sample of 1,945 (representing 20% of total GPs in the State) for detailed study. Unfortunately, the quality of information and data received was not up to the mark and the analysis of data has been hampered by their poor quality.

(2) **Urban Local Bodies:** Questionnaires seeking data on various aspects of Municipal finance and civic services were sent to all the three categories of Municipal bodies through U & AD Department. The Commission received responses from all Municipal Corporations (100%), 18 Municipal Councils (56%), and 77 Nagar Panchayats (60%). The relevant data were analysed.

**1.17 Discussion with State Govt.:** The Commission also had detailed discussion with the officers of Forest, Mineral Development, Tribal Welfare, School Education and Health Departments and obtained requisite information from them. In case of the key departments such as Finance, P&RD, UA&D, interactions were with the Additional Chief Secretary (Finance), Additional Chief Secretary P&RD and Principal Secretary U&AD respectively. The Commission also had discussions with Secretary, Forest; Secretary, Tribal Welfare; OSD,

Mineral Development; Director, Urban Administration; and Director Panchayat, etc. (List at Annexure 1.5).

**1.18 Field Studies:** The Commission commissioned two reputed NGOs, SAMARTHAN and PRADAN, to conduct field studies on PRIs in selected districts. A study on the 'Financial structure of Gram Panchayats' was done by SAMARTHAN, in four selected districts, i.e. Bastar and Sarguja (PESA districts) Mahasamund and Rajnandgaon (Non-PESA districts). A study on 'Effectiveness of Gram Panchayats in Managing Finances' was undertaken by PRADAN in Raigarh, Bilaspur, Dhamtari, and Kanker districts. Both the organizations selected 8 Gram Panchayats in each of the districts assigned to them and the selection was made carefully to represent various scenarios. (List of GPs at Annexure 1.6). Ten municipal bodies comprising 3 Municipal Corporations (Raipur, Durg and Korba), 3 Municipal Councils (Dhamtari, Mungeli and Jashpur), and 4 Nagar Panchayats were selected for detailed study by the consultant. Of the four Nagar Panchayats, two are old, established more than two decades back (Ahiwara and Pithora) while the remaining two are new (Baloda and Saragaon) established during the last few years. The study was conducted by a reputed organization, i.e. the Administrative Staff College of India (ASCI), Hyderabad. They held detailed discussions with the elected functionaries and officials of the ULBs as also Collectors of Bilaspur, Mungeli and Janjgir Champa districts. The consultants in course of their study also had detailed interaction with officers of the Town and Country Planning Organization (TCPO), Local Fund Audit Department (LFAD), Public Health Engineering Department (PHED), Raipur Development Authority (RDA), and SIRD.

**1.19 Consultation with Local bodies:** The Commission organized 8 regional (mostly Division level) consultations with elected representatives and officials of local bodies, both rural and urban, as given in the table below:

**Table 1.3**

Date & Place of Consultation	Districts Covered	Participants
Raipur 15.05.2012 (i) PRIs 15.06.2012 (ii) ULBs	Raipur, Dhamtari, Mahasamund, Gariaband, Balodabazar	84
16.05.2012 Bemetra 17.05.2012 Durg	Bemetra Durg, Rajnandgaon, Kawardha, Balod	25 66
Bilaspur 22.05.2012 (i) PRIs 02.06.2012 (ii) ULBs	Bilaspur, Mungeli, Champa-Janjgir, Korba, Raigarh	59
Ambikapur 24.05.2012 (i)PRIs 09.07.2012 (ii) ULBs	Sarguja, Koriya, Jashpur, Balrampur, Surajpur	114
07.06.2012 Jagdalpur PRIs & ULBs	Jagdalpur, Kanker, Dantewada, Bijapur, Sukma, Narayanpur, Kondagaon	118



In these meetings (List of participants at Annexure 1.7) discussions were held with elected representatives and officials of local bodies separately. These meetings were attended by Mayors of Municipal Corporations, Councillors, Chairman of Municipal Councils and of Nagar Panchayats, Chairman of Zila Panchayats and Janpad Panchayats, Members of Zila Panchayats, Sarpanchas of selected Gram Panchayats, Municipal Commissioners, CMOs, Chief Executive Officers of Zila Panchayats, . The Divisional Commissioner, Sarguja division, Collectors of Raipur, Bilaspur Bastar and Durg districts also participated. The Commission received valuable suggestions from the participants.

**1.20 Inviting Suggestions from Public:** The Commission invited suggestions from public by releasing advertisements and issuing press notes (Annexure 1.8) and through its website. The response unfortunately was poor. The Chairman addressed letter to all MPs and MLAs of the State inviting suggestions from them.

**1.21** The Commission also invited suggestions from industrialists of the State through their representatives. A meeting with them was held on 14<sup>th</sup> June, 2012 (list of participants Annexure 1.9)

**1.22 Workshops:** The Commission organized two workshops. A workshop was organized on 4<sup>th</sup> August, 2012 on 'Fiscal decentralization and Internal Revenue Mobilization at GP level' at the State Institute of Panchayat and Rural Development (SIRD), Nimora, Raipur in collaboration with them. The heads of GPs were invited to share their experiences and views on mobilization of internal resources. The second workshop was organized on the 'Finances of Municipal bodies' in collaboration with Urban Administration and Development Department, of the State Govt. of C.G. Participants comprised reputed experts on the subject and officials of municipal bodies, who shared their experiences and views. (List of participants at Annexure 1.10).

**1.23 Interaction with Hon'ble Ministers of concerned Departments:** The Commission held consultation meetings with Hon'ble Chief Minister Dr. Raman Singh who also holds the Finance portfolio, Shri Amar Agrawal, Minister for Urban Administration & Development and Shri Hemchand Yadav, Minister for Panchayats & Rural Development. Senior officers of the concerned Department were present in the meetings.

**1.24 Visit to other States:** The Commission visited Rajasthan and Gujarat States to study the local bodies in these two States and share the experiences of Finance Commissions of these States. The Commission paid a two days visit to Rajasthan on 3<sup>rd</sup> ad 4<sup>th</sup> Sept, 2012. We visited the office of the fourth State Finance Commission of Rajasthan on the 3<sup>rd</sup> Sept,

2012 and discussions held with Dr. B.D. Kalla, Chairman, SFC, Shri Rajpalsingh Sekhawat, Member, Shri J.P. Chandelia, Member and Dr. P.L. Agrawal, Member Secretary. The Commission also held separate meetings with Principal Secretary, Finance Department and senior officers of Urban Development & Housing Department and Rural Development and Panchayati Raj Department of Rajasthan Govt. on the working of local bodies in the State. We visited Chandlai and Dooni Gram Panchayat and Chaksu Municipal Council on 04.09.2012 to have first hand knowledge of working of local bodies. The Commission also visited Gujarat State on 6<sup>th</sup> and 7<sup>th</sup> Sept, 2012. We held discussion with the third SFC of the State: Dr. Bharat Gariwala, Chairman & Dr. D.N Pande, Member Secretary. The Commission also held separate meetings with senior officers of the Panchayat & RD, Urban Development Depts. and officers of Gujarat Urban Development Corporation. The Commission paid a field visit to two GPs Adlaj and Uwarsad and the municipal body at Himmatnagar on 7th Sept, 2012 to study their working.

We are grateful to Govt. of Rajasthan and Gujarat and the State Finance Commissions of these States for the very useful insight they provided and also for the kind courtesies extended to us.

#### **1.25 Field Visits to PRIs & Municipal Bodies:**

The Commission visited a few PRIs and municipal bodies in the State to study their working and to collect first hand primary information. The following institutions were covered in these visits: Zila Panchayat, Mahasamund; Janpad Panchayats, Arang and Dharsiwan; Nagar Panchayats of Mana and Baloda Bazar; Municipal Council of Kumhari; Bellargaon, Siyadehi and Kukrel Gram Panchayat in Nagri Janpad Panchayat area (Dist. Dhamtari) and Kodikasa, Kekatitola and Mathaldabai in Dist. Rajnandgaon.

**1.26** We had requested the Finance, Panchayat and U & AD Departments to submit memoranda on their expectations from the Commission. Only the U & AD and Panchayat Departments submitted their suggestions, if not in the form of a memorandum (Annexure 1.11).

#### **Constraints faced by the Commission**

**1.27** The Commission functioned under several limitations and constraints. The Commission never had the services of a full time Secretary as mentioned in Para 1.11. It also could not have the services of experienced staff from the concerned Depts. Secondly, inspite of the best efforts including reminder in the consultation meetings, through the concerned Deptt. and personal contact, the data received from the local bodies were of very poor quality. Even the quality of the data received from the ZPs and Municipal Corporations

were not up to the mark. As per macro level data, neither the Panchayat Deptt. nor the Deptt. of Urban Administration and Development maintain any data bank on the functioning of the local bodies in their charge. U & AD does have data on municipal bodies; but there is a mismatch between their data and data received from the local bodies themselves. The Directorate of Panchayat does not keep any data on the functioning of Panchayats. We need hardly emphasize that comprehensive data on the working of the local bodies must be maintained at the Directorate level and updated periodically. Our analysis of the finances of the local bodies are based on such inadequate data and our recommendations may also suffer from such limitations.

### **Design of the Report:**

**1.28** The report of the Commission has been divided into five parts. The first part deals with, apart from an introduction, the issues, approach and the methodology followed by the Commission, the recommendations of the first Finance Commission and their implementation including their impact on State's Finances and more important, an analysis of the finances of the State. The second part deals with rural local bodies; the Panchayats. This part includes the status of functional devolution on the Panchayats, the status of their finances, accounts, and audit, and also the governance issues. In the third part we have dealt with urban local bodies. This part includes status of municipalities in the State, their finances, the status of their infrastructure and delivery of civic services, the financial gap assessment of devolution and governance issue relating to the urban local bodies. In part four, we have discussed the principles we have followed for devolution and it includes our recommendations regarding devolution of funds to the PRIs and ULBs. The last part of the report contains some of our general suggestions. A summary of the recommendations of the Commission is given at the very beginning of the report.

**1.29** The Commission submitted an interim report for the year 2012-13 to the Hon'ble Governor on the 30<sup>th</sup> November, 2012 (Annexure 1.12). This the Commission thought necessary as the year 2012-13, which is the first year of its award period, was coming to an end. We did not want the local bodies of the State to be deprived of the award of the Commission in the very first year of the award period.