

# CHAPTER 1

## Introduction, Issues and Approach

### Background

1.1 The 73<sup>rd</sup> & 74<sup>th</sup> Amendment to the Constitution of India has vested with a wide range of powers to the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to function as institution of self-governance. A significant component of it, is vesting fiscal powers to the PRIs and ULBs which are mentioned respectively under Article 243 H and Article 243 X of the Constitution.

1.2 Article 243 I and 243 Y of the Indian Constitution prescribes that the Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventythird Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the PRIs and ULBs to make recommendations to the Governor on these matters. Articles 243 G, H, I, W, X and Y make it compelling to have a review of the performance of state finances. Besides tax sharing, the SFC is assigned the task of reviewing the financial position of the Local Bodies and making recommendations on the assignment of various taxes, duties, tolls, fees and grants-in-aid to be given to these bodies from the consolidated fund of the state. The most critical function of the SFCs is to determine the fiscal transfer from the state to the local bodies in the form of revenue sharing and grants-in-aid.

1.3 This Chapter examines briefly the rationale behind the formation, composition and functions of the Third State Finance Commission in the State of Chhattisgarh.

### About Chhattisgarh

1.4. Chhattisgarh is one of the youngest states of India with having a geographical area of 1,35,192 square kilometers, constituted on 1<sup>st</sup> November, 2000. This state is having potentiality and located in the heart of India, shares its borders with seven states of the country, Uttar Pradesh to the north, Jharkhand to the north-east, Odisha to the east, Madhya Pradesh to the west and north-west, Maharashtra to the south-west and Andhra Pradesh and Telangana to the south-east.

1.5. The total population of the state as per 2011 census is 2.55 crore of which the total male population is 1.28 crore and the female population is 1.27 crore. It has one of the lowest population densities among the States, at 189 per sq.km, as against all India average of 382 per sq.km. 44.21% of its land area is under forest where as all India average is 23.38%. Major mineral resources of Chhattisgarh are Coal, Iron ore, Lime stone, Bauxite, Tin etc. The key population indicators of the state are shown in table 1.1.

**Table 1.1: Important Indicators of Population**

(In lakh)

Indicators	Chhattisgarh		India	
	2001	2011	2001	2011
<b>Population</b>				
<b>Total Person</b>	208	255	10,287	12,106
Male	105	128	5,322	6,231
Female	104	127	4,965	5,874
<b>Rural Person</b>	166	196	7,425	8,335
Male	83	97	3,816	4,276
Female	83	98	3,609	4,058
<b>Urban Person</b>	42	59	2,862	3,771
Male	21	30	1,506	1,954
Female	20	29	1,356	1,816
<b>Decadal growth (%)</b>	18.3	22.6	21.5	17.7
<b>Urban Population (%)</b>	20.1	23.2	27.8	31.8
<b>Rural Population (%)</b>	79.9	76.8	72.2	68.8

Note: Only rounded off figures have been taken in to consideration.

Source: Socio-Economic Survey Report, Chhattisgarh, 2014-15.

The State has 27 districts. The district-wise profile depicting geographical area, population, sex ratio and literacy rate is given in Annexure 1.1.

#### **PRIs in Chhattisgarh:**

1.6. The PRIs of the state have taken many initiatives of providing basic services to the people of the rural areas in the state. The institutional arrangements and functioning of PRIs in the state have started since the formation of the state of Chhattisgarh in the year 2000. The Chhattisgarh adopted the Madhya Pradesh Panchayat Raj Act of 1993 and also the State Finance Commission Act of 1994 of Madhya Pradesh.

1.7. Chhattisgarh is predominately agriculture based rural state with 76.76% of its population live in the villages. PRIs in Chhattisgarh are as follows:-

**Table 1.2: Profile of the PRIs in Chhattisgarh**

Sl. No.	PRIs	Number
1	Zila Panchayat	27
2	Janapad Panchayat	146
3	Gram Panchayat	10,971

Source: P & RD Department, Chhattisgarh.

Profile of the PESA PRIs is as follows:-

**Table 1.3:PESA PRIs in Chhattisgarh**

Description	Zila	Janpad	Gram Panchayat
Fully covered under Pesa	13	69	5050
Partly covered under Pesa	06	16	
<b>Total</b>	<b>19</b>	<b>85</b>	<b>5050</b>

Source: P & RD Department, Chhattisgarh.

### ULB's in Chhattisgarh:

India is experiencing fast urbanization and Chhattisgarh State is not exception as per Census 2011. Chhattisgarh has an urban population of 59,37,237 constituting 23.24 percent of the total population of the state as against the nation's 31.16 percent.

**Table 1.4: Profile of the ULBs in Chhattisgarh**

Sl. No.	ULBs	Number
1	Nagar Palik Nigam	13
2	Nagar Palika Parishad	44
3	Nagar Panchayat	111
	<b>Total</b>	<b>168</b>

Source: Urban Administration & Development Department, Chhattisgarh,

Division-wise information of local bodies in Chhattisgarh is given in **Annexure 1.2**.

### State Finance Commissions of Chhattisgarh

#### First State Finance Commission

1.8. Since the state of Chhattisgarh was created on November 2000 as reorganization of Madhya Pradesh, its first SFC was constituted on 22<sup>nd</sup> August, 2003. It was reconstituted on 14<sup>th</sup> July, 2004 and the Commission submitted its report in May 2007. In the meantime the recommendations of the first and the second SFC of Madhya Pradesh for the relevant years were applicable to the newly created state.

#### Second State Finance Commission

1.9. The Second State Finance Commission of Chhattisgarh was constituted on 23<sup>rd</sup> July, 2011 to give recommendations for the period of year 2011-16. However, since it was not possible to analyse all information and data during the given period. Hence, considering this scenario, the State Government had extended the award period of the First SFC upto March 2012 and changed the award period of 2<sup>nd</sup> SFC from year 2012 to 2017.

**1.10.** The Second SFC submitted its report in March 2012 covering all aspects of its ToR. The details of recommendations of 2<sup>nd</sup>SFC and action taken report by the State Government have been discussed in Chapter-2 separately.

### **Third State Finance Commission**

The Third State Finance Commission was constituted as per the notification no. 02/L 8-9 (Part) /2016 /Fin./FCC, on dated 20<sup>th</sup> January, 2016. It was constituted as per the Section-3 of Chhattisgarh Rajya Vitta Ayog Adhiniyam, 1994. (Annexure 1.3)

The State Government extended the term of this Commission upto 31<sup>st</sup> January 2018 by notification no. 2/F-06-01001226/2017/Fin./FCC Dated: 31<sup>st</sup> January 2017 (Annexure 1.4), upto 31<sup>st</sup> May 2018 by notification no. 16/F-2017-04-04005/2018/Fin./FCC Dated: 29<sup>th</sup> January 2018 (Annexure 1.5), upto 30<sup>th</sup> September 2018 by notification no. 178/F-2017-04-04005/2018/Fin./FCC Dated: 29<sup>th</sup> May 2018 (Annexure 1.6)

**1.11.** Shri Chandra Shekhar Sahu is appointed as Chairperson and Shri Naresh Chandra Gupta as the only Member. Though two members could be appointed as per the provision of the Chhattisgarh Rajya Vitta Ayog Adhiniyam 1994 and Amendment Adhiniyam 2015 in section 3 of the Adhiniyam for the words "one other member", the words "two other members" shall be substituted. Dr. Bharat Kumar Agrawal was appointed as Secretary to the Commission.

### **Terms of Reference (ToR) of the Third State Finance Commission**

**1.12.** The notification of the Finance Department regarding the ToR of the 3<sup>rd</sup>SFC was issued on 6<sup>th</sup> February, 2016. (Annexure 1.7) The ToR was highlighted the key areas for which the Commission should give focus through the recommendations. It says that;

1.

**(a) The principles which should govern,-**

(i) the distribution between the State and the Panchayats or the Municipalities (as the case may be) of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Parts IX and IX-A of the Constitution and the allocation between the Panchayats and Municipalities, as the case may be, at all levels of their respective shares of such proceeds,

(ii) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats and Municipalities, and

(iii) The grants-in-aid to the Panchayats and Municipalities from the Consolidated Fund of the State;

**(b) the need to improve the financial position of the Panchayats and the Municipalities, and to make recommendations, including in respect of, -**

**(i) rationalising the taxes and non-tax revenues being collected by the Panchayats and Municipalities, and identifying new possibilities for generating resources, in particular the levy of user charges on services rendered by such bodies, in order to cover operation and maintenance costs;**

**(ii) the potential of local governments to raise funds from financial institutions and the market, and a framework for this;**

**(iii) improving local governments' capacity of financial management;**

**(iv) improving the monitoring of the fiscal performance of local bodies;**

**(v) providing incentive for higher revenues;**

**(vi) achieving economy and efficiency in expenditure by local governments;**

**(c) the need for sharing between the State, the Panchayats and Municipalities, the cost of maintenance of assets owned by local bodies as well as those transferred to them;**

**(d) the potential for Public-Private Partnership with special reference to urban local bodies;**

**(e) the arrangement for devolution of funds to the Intermediate/Block and District level Panchayats, in view of the fact that as per Fourteenth Finance Commission's recommendations grants-in-aid shall be provided only to Village Panchayats for delivering basic services; and**

**(f) the arrangement for suitable provision to compensate for, including through distribution of revenues collected from assets made by the Panchayats which have been transferred to Municipalities**

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 Chhattisgarh Fiscal Responsibility and Budget Management Act, 2005;**

**(ii) the recommendations of the Fourteenth Finance Commission with regard to local bodies; and**

**(iii) Central sector programmes and centrally sponsored schemes under which funds are provided to local bodies.**

## **Procedure Followed by the SFC**

**1.13.** Article 243 I (3) of the constitution of India enjoins the SFCs to determine their procedures of work. The Commission had followed various methods and approaches for preparing its report.

At the initial stage, the Commission had started its work through analysing the status of PRIs & ULBs in the state and reviewing the status of implementation of recommendations of the Second SFC of the State.

### **Initial Interactions**

**1.14** In this regard suggestions were invited from all Honorable MPs, MLAs, Chairpersons and members of various Commissions, corporations and boards of the state. Apart from this, suggestions were also invited from key functionaries of the P & RD department, UA & D department and various other categories of people. This process helped the Commission to get an overall scenario of the PRIs and ULBs in the state.

Several meetings were also conducted with Director, NIPFP, New Delhi Mr. Rathin Roy to prepare future working plan. A meeting was also held at Chhattisgarh Bhawan, New Delhi with MP's of Chhattisgarh (Rajya Sabha and Lok Sabha) to get their valuable suggestions.

### **Issue of Questionnaires to Local Bodies**

**1.15.** In order to assess the income, expenditure, service level, debt position, their status of functions, their expectations from the Commission and human resources of the PRIs and ULBs of the State, the Commission had prepared three sets of questionnaire and sent each to the ZPs, JPs and GPs and two sets to ULBs, one for the Nagar Palik Nigam and second for the Nagar Palika Parishad and Nagar Panchayats. As per the questionnaire, all ZPs, JPs and GPs of the state (*except 18 GPs*) had provided data i.e. 99.84% and 100% in case of ULBs.

**1.16.** The Commission had also taken various initiatives for analysing and compiling the findings of the collected data. For this purpose, the Commission had taken the professional services.

### **Workshops, Consultations and Interactions**

**1.17.** Officials of the Commission had a consultation meeting with Hon'ble Chief Minister Dr. Raman Singh who also holds the Finance ministry. Commission also had detailed discussion with Hon'ble Shri Amar Agrawal, Minister for Urban Administration and Development Department.

In order to understand the scenario of PRIs and ULBs in the state, the Commission organised workshops in five revenue divisions of the state. The workshops were organised with the purpose of creating awareness among the participants (PRIs and ULBs Members and functionaries)

about the constitutional mandates of SFC, suggestions for effective functioning and strengthening the own revenue of the PRIs and ULBs in the state.

1.18. Members and functionaries from PRI's and ULBs have participated in the workshops. They suggested various means and ways for strengthening the own revenue of the local bodies, to built an understanding between the Commission and the participants that how, and to what extent the recommendations of the Commission may help to the local bodies for achieving their goals. (Table 1.5)

**Table 1.5: Divisional Level Workshops**

Sl. No.	Date of Meeting	Place	Participants		Participants	
			PRI Members	PRI Functionaries	ULB Members	ULB Functionaries
1	24.05.2017	Jagdalpur	82	98	-	-
2	25.05.2017		-	-	11	42
3	31.05.2017	Ambikapur	81	91	-	-
4	01.06.2017		-	-	14	26
5	14.06.2017	Bilaspur	83	99	-	-
6	15.06.2017		-	-	32	38
7	23.06.2017	Raipur	45	59	23	31
8	12.07.2017	Raj Nandgaon	35	79	13	19
	<b>Total</b>		<b>326</b>	<b>426</b>	<b>93</b>	<b>156</b>

Source: Third State Finance Commission, Chhattisgarh.

1.19. It was suggested by the participants that the PRIs and ULBs should be given more powers, adequate number of functionaries and funds from the State Government for effective functioning. The PRIs of the PESA area and the areas affected by the Left Wing Extremism (LWE) should have received more funds and functionaries for delivering services effectively.

### Workshops

1.20. A state level Mayor's Conference was organised on 22<sup>nd</sup> September, 2016 at Raipur to discuss different issues related to ULBs in which all the Mayors, Chairmans, Leaders of Opposition and Commissioners of Nagar Palik Nigams were present.

Another state level workshop was organised on 23<sup>rd</sup> September, 2017 at Raipur to brainstorm on the implementation of GST and its possible outcomes on the finances of the PRIs & ULBs. (List of participants - Annexure 1.8)

## **Inviting Suggestions from Public**

**1.21.** The Commission invited suggestions from public by releasing advertisements. (Annexure 1.9)

## **Visit to PRIs and ULBs**

**1.22.** The Commission had visited extensively to various parts of the state and interacted with the various categories of people (PRIs and ULBs Members, Functionaries and others) in order to understand the overall scenario of the Local Bodies and solicit suggestions with regard to finance and other aspects of these institutions.

**1.23.** For field work and primary data collection Centre for Economic and Social Studies (CESS), Hyderabad had selected as sample five ZPs, ten JPs and twenty GPs and Administrative Staff College of India (ASCI), Hyderabad had also selected as sample six ULBs, which include two Nagar Palik Nigams, two Nagar Paikia Parishads and two Nagar Panchayats. This process helped Commission to further understand the ground reality and recommend suitable measures for strengthening the PRIs and ULBs in the state.

## **Visit to Other States**

**1.24.** The Commission had also visited the State of Haryana to study the functioning of their SFC and interacted with the PRIs, ULBs and the SFC Members and functionaries of the state.

## **Scope of Work**

**1.25.** The scope of work includes assessment of finances – taxes, non-taxes, transfers; expenditure pattern, financial devolution to PRIs & ULBs, assessment of decentralization of urban and rural governance, accountability, accounts and audit, assessment of delivery of basic services, status of implementation of previous state and central finance Commission recommendations, functional devolution, role of parastatals, documentation of good practices, e-governance, capacity building and training, etc.

## **Approach**

**1.26.** The Commission's approach is to ensure that the PRIs & ULBs should function as decentralized units of local self government as enshrined in the Constitution. This requires strengthening them functionally, financially as also providing adequate and well-trained staff to discharge their obligations to meet the needs of the present and future demands.

**1.27.** One of the Terms of Reference of the Commission is to make recommendations having regard to Fiscal Responsibility and Budget Management Act 2005 and 14<sup>th</sup> FC's mandatory and non-mandatory recommendations which need to be incorporated into the urban and rural governance framework. The Commission while approaching the subject kept this aspect of strengthening the urban and rural governance, which would have impact in improving the financial status of PRIs & ULBs.



1.28. In recent years central and state finance Commissions have expanded their scope to include governance which is critical to improve the performance of local bodies – both rural and urban. There is also a belief that financial reforms are possible and effective only when they are accompanied by overall governance improvements.

1.29. The report of the High Power Expert Committee on *Indian Urban Infrastructure and Services, 2011* (HPEC) facilitated articulation of the financial resources required to meet the infrastructure and service delivery gaps as well as the requirements to meet the future needs including O&M costs. Computation was done for the resource requirements based on the norms indicated by the HPEC. This greatly helped the Commission which otherwise would have taken considerable time, effort and resources. The service delivery gaps were identified based on notification made by the UA & D Department on Service Level Benchmark for Nagar Palik Nigam and Nagar Palika Parishad based on which for two decade period projections were made to all the ULBs.

1.30. With the recognition of the criticality of cities and towns to national development, the GOI launched several development programs like SBM, AMRUT, UIDSSMT, IHSDP, RAY, etc. One of the conditions to access the funds under these programs is the introduction of reforms in governance, accounts, e-governance, constitution of municipal cadres, cost recovery of O&M charges, etc. in ULBs. The approach is to look holistically at the working of the ULBs and to recommend reforms in finance, staffing, accounts, e-governance, transparency and accountability, etc., areas so that they are adequately strengthened and equipped both in terms of finances and governance to be in readiness to access the funds under different schemes.

1.31. The Commission used the assessment report (memorandum) presented to the 13<sup>th</sup> and 14<sup>th</sup> Finance Commission during 2009-10 and 2014-15 and various other reports like Report of the Planning Commission in order to present a realistic picture of the physical and social services currently being provided by PRIs & ULBs.

1.32. The Commission suggests an overall approach to make recommendations to work towards self-sustaining and making vibrant PRIs & ULBs in the Chhattisgarh and reduce the dependency on various other grants.

#### **Issues**

1.33. There are 10971 Gram Panchayats (GP), 146 Janpad Panchayats (JP) and 27 Zila Panchayat (ZP). Of these 5050 GPs, nearly half the total numbers, 85 JPs, are in the Scheduled 'V' area and PESA is applicable to them. Of the 168 ULBs in the state, there are 13 Nagar Palik Nigams, 44 Nagar Palika Parishads and 111 Nagar Panchayats.

1.34. While working on ToR, several issues came for the consideration of the Commission. These are:

1. The level of basic services provided by the most PRIs and ULBs is very poor.
2. Many of the Nagar Panchayats have lack of urban facilities.
3. The local bodies will require more financial resources than they have at present, but they suffer limited capacity and very limited base for raising own revenues.
4. Density of population in Chhattisgarh is very low. (189 when compared with India it is 382). Hence number of small villages and towns are plenty in Chhattisgarh which resulted high cost in delivery of services.
5. The institutional capacity of most of the Gram Panchayats are limited specially in the Scheduled areas, it is quite poor.
6. The formula that is governed to convert Gram Panchayats in to Nagar Panchayats should be followed in letter and spirit.
7. The Commission is convinced that the reason behind poor delivery of services by local bodies is lacking of demand for better services from citizens. The Commission was also convinced that Chhattisgarh needs public awareness raising campaign to re-educate citizens about their responsibilities and rights.
8. It has taken a lot of time to gather necessary data, while they were extremely required, the Departments of UA & D and P & RD were hamstrung in providing the necessary data because these had to be collected from all over the State. It is Commission's firm belief, that collection and compilation of data is the responsibility of the Government which must become a continuous exercise. Without valid data, it is neither possible to plan effectively nor to prioritize expenditure. Prioritizing expenditure is a sine qua non of any deficit budget. Chhattisgarh cannot hope to systematically move ahead on its development path without a good database.
9. The 73<sup>rd</sup> Constitutional Amendment Act, 1992 envisages transfer of 29 functions listed in the Eleventh Schedule of the Constitution to the PRIs. Further funds and functionaries required for implementation of activities were to be devolved along with the transfer of functions to make them fiscally capable and autonomous. But this could not devolve completely till today.

#### **Design of the report**

1.35. In this report the Chapters organised in the manner suggested by the 13th Central Finance Commission to the possible extent. There are 18 Chapters in the report.

Initial 3 Chapters deals with, introduction, work procedure, issues and approach, status of implementation of previous SFCs and State Finances.

Chapter 4-10 is about the Panchayats: Status of rural decentralized governance and devolution, financial accountability, physical services, finances, best practices, gap in financial resources and general observations etc.

**Chapter 11-15** is about the municipalities: urbanization and urban governance, physical services, finances, best practices, gap in financial resources.

In **Chapter 16** general reforms and general observations of the Commission is included. Scheme of devolution for local bodies is given in **Chapter 17** and **Chapter 18** describes proposed grant-in-aid.

A **summary of the recommendations** of the present State Finance Commission is given at the very beginning of the report.

#### **Award Period**

**1.36** The award period of this Commission is from the year 2017-18 to year 2021-22. It was not possible for the Commission to present its final report before the first year (2017-18) of the award period. Therefore Commission has presented its Interim Report for the year 2017-18. Government did not take any decision on this Interim Report therefore Commission has decided to include it, in the final report with required modifications. For the year 2017-18 devolution to local bodies has been done on the basis of the recommendations of second SFC. The local bodies should not be deprived from the difference of actual devolution and recommended devolution. So the Commission is of the view that a Corpus Fund should be established for this difference of amount.

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