

# **Finances of Rural Local Bodies in Chhattisgarh State - A Study**

**M. Gopinath Reddy**

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**Bishnu Prasad Mohapatra**



**CENTRE FOR ECONOMIC AND SOCIAL STUDIES  
BEGUMPET, HYDERABAD**

**February, 2020**

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## Foreword

The Centre for Economic and Social Studies (CESS) was established in 1980 to undertake research in the field of economic and social development in India. The Centre recognizes that a comprehensive study of economic and social development issues requires an interdisciplinary approach and tries to involve researchers from various disciplines. The Centre's focus has been on policy relevant research through empirical investigation with sound methodology. Being a think tank, it has focused on, among other things, several distinctive features of the development process of Andhra Pradesh earlier and presently focuses on development process of Telangana State, while the Centre's research activities has expanded beyond the state, covering other states apart from issues at the national level. In keeping with the interests of the faculty, CESS has developed expertise on themes such as economic growth and equity, rural development and poverty, agriculture and food security, irrigation and water management, public finance, demography, health, environment and other studies. It is important to recognize the need to reorient the priorities of research taking into account the contemporary and emerging problems.

Dissemination of research findings to fellow researchers and policy thinkers is an important dimension of policy relevant research which directly or indirectly contributes to policy formulation and evaluation. CESS has published several books, journal articles, working papers and monographs over the years. The monographs are basically research studies and project reports done at the Centre. They provide an opportunity for CESS faculty, visiting scholars and students to disseminate their research findings in an elaborate form.

The present study on "**Finances of Rural Local Bodies in Chhattisgarh State-A Study**" undertaken by my faculty colleagues Prof.M.Gopinath Reddy, Dr. N.Sreedevi and Dr.Bishnu Prasad Mohapatra presents important issues regarding the Finances of the Panchayati Raj Institutions (PRIs) in Chhattisgarh State and progress made by the state to achieve the goal of Fiscal Decentralisation in the state. The rationale of this research study emerged in the context of institutionalisation of the Third State Finance Commission (TSFC) in the state in 2016.

The main objective of this research is to understand the finances of the PRIs in the state of Chhattisgarh. Further, it is to understand how the issues of Devolution of

Powers to the PRIs have been taken up in the state and the overall implications of devolution process on making PRIs effective and viable in delivering goods and services. The study was carried out through employing two key research methods such as (i) In-depth interview method and, (iii) Focus Group Discussion (FGD). The data base of the study was generated through both the quantitative and the qualitative methods.

The key findings of the study indicated that the PRIs in the state have become instrumental to foster the process of development. With regard to Finances of the PRIs, this study observed that the revenue sources are statutorily assigned to the Panchayats under the Chhattisgarh Panchayati Raj Adhiniyam, 1993. With regard to own revenues of the ZPs of the state, they have nominal power to levy and collect taxes from various sources. Further, it is observed through this study that the own revenue of the Gram Panchayats and Janpad Panchayats have increased over the years and these bodies have collected more fees than Obligatory Taxes and Optional Taxes during the last few years.

However, in some cases the devolution of funds, functions and functionaries has not been fully operationalised. Despite the enactment of the State Legal Provisions and Institutionalisation of the SFCs, poor finances have restricted the functioning of the PRIs. Many key recommendations of the SFCs have not been transferred into Action Taken Report.

At the end, the study suggests some policy recommendations taking into account the issues emerged through the study. With regard to Functional Devolution, it suggests that the functional devolution process should be completed with devolution of all functions related to 29 Subjects and functionaries against each function. This study suggests that 9% of the net SOTR (State Own Tax Revenue) should be transferred to the PRIs in the state. Taking the fiscal position of state into account, it is suggested for the grant of Rs.8966.89 crores for PRIs for five years (2017-2022). I am sure the study findings will be useful to the Policymakers, Researchers and Civil Society Organisations working for strengthening the rural local bodies in the context of ongoing devolution regime in the state.

**E. Revathi**  
Director, CESS

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During the period of field visit and data collection, we have received enormous support and cooperation from various Zila Panchayats (ZPs), Janpad Panchayats (JPs) and Gram Panchayats (GPs) of the state. We are extremely grateful to the Elected PRI Members and Functionaries who had helped us through providing various information related to this study. We thank to the Field Investigators namely Mr. Puralal Sahu, Mr. Reshamlal Dadsena, Mr. Makardhwaj Rana and Mr. Hitesh Rathore for their support for gathering field data from various sampled ZPs, JPs and GPs of the state.

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Authors



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## Acronyms and Abbreviations

ATR	:	Action Taken Report
BE	:	Budget Estimate
CEO	:	Chief Executive Officer
FGD	:	Focus Group Discussion
FMC	:	Forest Management Committees
FRBM	:	Fiscal Responsibility and Budget Management
GAC	:	General Administration Committee
GP	:	Gram Panchayat
GSDP	:	Gross State Domestic Product
IHL	:	Individual Household Latrine
JP	:	Janapada Panchayat
LWE	:	Left Wing Extremism
MFP	:	Minor Forest Produce
MoPR	:	Ministry of Panchayati Raj
NSSF	:	National Small Savings Fund
OSR	:	Own Source Revenue
PESA	:	Provision of Panchayats Extension to Scheduled Areas
PMAY	:	Pradhan Mantri Awas Yojana
PMGSY	:	Pradhan Mantri Gram Sadak Yojana
PRIs	:	Panchayati Raj Institutions
RBI	:	Reserve Bank of India
RE	:	Revised Estimate
SBM	:	Swachha Bharat Mission
SC	:	Scheduled Caste
SFC	:	State Finance Commission
SHGs	:	Self-Help Groups
SMC	:	School Management Committees
SOTR	:	State Own Tax Revenue
SONTR	:	State Own Non-Tax Revenue
SSA	:	Sarva Shiksha Abhiyan
ST	:	Scheduled Tribe
TRE	:	Total Revenue Expenditure
TRR	:	Total Revenue Receipt
TSFC	:	Third State Finance Commission
ULBs	:	Urban Local Bodies
VAT	:	Value Added Tax
ZP	:	Zila Panchayat

## CHAPTER - I

### Introduction

#### 1.1. Background

The role of the Rural Local Self-Governing Institutions in achieving the agenda of fiscal decentralisation has been vigorously explored by many scholars around the globe. These institutions as a part of decentralised governance system have emerged as pioneer of promoting development in rural areas in many countries. The increasing attention paid by the state administrative apparatus on effective delivery of goods and services through decentralised institutions has made them as nerve centre of promoting development. One of the principal motivations for decentralising of political, administrative and fiscal systems in developing countries is the belief that this will help to catalyse the process of harnessing the developmental potential and improve the living conditions of the people, particularly the disadvantaged sections (Rao and Raghunandan, 2011). It is argued that these institutions can be able to provide an accountable and transparent administration only when certain internal and external conditions can be fulfilled. Conditions such as accountability, transparency, participation and fiscal transfers are the key to make these institutions effective and transparent (Mohapatra, 2013). It is also felt that decentralisation of power to the local units of government is one of the best ways of empowering people, promoting public participation and increasing efficiency (Reddy, 2003).

The emergence of the Panchayati Raj Institutions (PRIs) as an instrument of decentralised governance system came into limelight in 1992 with the passage of the 73<sup>rd</sup> Constitution Amendment Act in India. This initiative provided a fresh impetus to the PRIs through devolving necessary powers and responsibilities to function as institutions of self-government. This Act has suggested for devolving powers to the PRIs to augment their own revenues in order to make them as institution of self-government. A significant component of it is vesting fiscal powers to the PRIs which are mentioned under Article 243 (H) of the Constitution. Further, Article 243 (I) of the Act prescribes that the Governor of a state shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the PRIs to make recommendations to the Governor on these matters. Besides tax sharing, the State Finance Commission (SFC) is assigned the task of reviewing the financial position of the Local Bodies (PRIs and Urban Local Bodies (ULBs)) 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 SFC is to determine the fiscal transfer from the state to the local bodies in the form of revenue sharing and grants-in-aid.

In the case of Chhattisgarh, the PRIs have been functioning as institution of self-government since the formation of the state in 2000. These institutions have taken many initiatives of providing basic services to the people in the rural areas. However, in the present decentralisation regime, the PRIs of the state have faced various challenges while discharging their duties. Further, the policies of devolution undertaken by the state government have brought the issue of devolution of powers to the forefront. The institutionalisation of the SFCs in the state during different period of time has brought the finances of the PRIs into limelight and motivated the state government to delve on the issue. However, the issue of fiscal autonomy of these institutions seems to be quite large, notwithstanding the recommendations of the various SFCs and policies taken by the state to make PRIs financially sound. It is on this basis, it has become imperative to nuance critically the issues associated with the process of fiscal decentralisation and position of PRIs with that regard in the state.

This study is part of a larger project undertaken in the state in the context of formation of the Third State Finance Commission (TSFC) in 2017. It tries to unfold the issues of funds, functions and functionaries of the PRIs and to what extent the devolution of powers and transfer of funds along with functions and functionaries have impacted on the effective functioning of the PRIs in the state. It has also highlighted the finances of the state with a focus on Own Source Revenue (OSR) of the state and how it has influenced the finances of the PRIs in the state. The institutionalisation of the SFCs (First and Second SFC) in the state and their key recommendations have also been discussed and how these recommendations have been taken up for implementation have been highlighted. On the basis of primary data collected from the five districts of the state and secondary data from various government departments, it has offered some concrete suggestions which were discussed in last section of the monograph.

## **1.2. Rationale of the Study**

India has been witnessing the evolution and institutionalisation of the decentralised governance in rural areas since the pre-independence period. The process of democratic decentralisation in India has witnessed a paradigm shift in the context of the evolution of local governments with the enactment of the 73<sup>rd</sup> Amendment Act in 1992, and the PESA Act in 1996. This scenario has contributed immensely towards the institutionalisation of the Panchayats as a unit of rural local government in India. The Panchayats in the

contemporary era of development have been playing a catalytic role in promoting local development plans and implementing development programmes in the rural areas. Since the last three decades, the country has witnessed enormous shift in the decentralised governance reforms which is believed to have reflected through the process of institutionalisation of Panchayats and devolution of powers to these institutions including fiscal devolution.

The state of Chhattisgarh since its formation in the year of 2000 has taken-up extensive efforts for institutionalising PRIs in the state. In the context of ongoing development process and governance reforms in the state with enactment of the 73<sup>rd</sup> Amendment Act and state Panchayati Raj Acts, the PRIs are expected to emerge as nerve centre of promoting rural and tribal development. However, the progress made so far for strengthening the PRIs has not reached at the desired level which has been observed through many research studies. The functioning of these institutions in the state faced various challenges including the problem finances of the PRIs. Increasing debates on continuation of poverty and underdevelopment in the rural and tribal areas raised many questions about the overall performance of the PRIs and powers being devolved to them in the state. So, in this context it is indeed important to understand the current status of the functioning of these institutions (Panchayats) and status of devolution of powers to them including the fiscal powers. Based on this assumption, this study was designed to explore the functioning of the PRIs in Chhattisgarh and finances of these institutions in the state.

### **1.3. Objectives**

**1.3.1. Broad Objective:** Considering the above stated issues, the main objective of this research is to understand the finances of the PRIs in the state of Chhattisgarh in the context of institutionalisation of the TSFC in the state. Further, it is to understand that how the issues of Devolution of Powers to the PRIs have been taken up in the state and what are the overall implications of devolution process on making PRIs effective and viable in delivering goods and services. It is also intended to understand the finances of the state and the status of the OSR of the state. The main source of this research and its objective is based on the formation of the SFC in the state and emerging issues of the finances of the state and how it will influence the finances of the PRIs of the state.

**1.3.2. Specific Objectives:** The specific objectives of the study are;

- To understand the process of democratic decentralisation in the state and how the PRIs have been functioning in the state.
- To explore the status of devolution of powers to the PRIs and the fiscal powers transferred to these bodies in the state.

- To understand the finances of the PRIs in the state, status of OSR and contribution of OSR to the total Revenue of the PRIs in the state.
- To suggest various policies for strengthening finances of the PRIs in the state and how the SFCs can help to strengthen the fiscal devolution agenda in the state.

#### 1.4. Methodology and Data Base

*1.4.1. Methodology:* The study was carried out through employing two key research methods such as (i) In-depth interview method and (ii) Focus Group Discussion (FGD). These two methods were applied for collecting data from various sample districts of Chhattisgarh. Through employing these methods it was attempted to explore various qualitative as well as quantitative components of the research topic such as (i) devolution of funds, functions and functionaries, (ii) revenues of the PRIs and status of own revenues, (iii) awareness of the PRI Members, functionaries and citizens on various issues of the PRIs and (iv) challenges faced by the PRIs in the way of their functioning were covered for the assessment of the overall implications of the functioning of PRIs, their finances and contributions towards improving service delivery in the state.

*1.4.2. Data Base:* The data base of this study is based on both the primary as well as secondary data collected from the various sources as part of working for the Third SFC of the state. As a part of collection of primary data, it was attempted to cover five districts of the state through using the above mentioned quantitative and qualitative methods.

Apart from this, the secondary information was collected based on a checklist developed for this purpose. Information based on reports of various SFCs, Action Taken Report (ATR) of state government on SFC Reports, legal provisions (Acts, Rules and Government Orders) related to PRIs, Budget data and reports of the Comptroller and Auditor General (CAG) and study reports prepared by various ministries and Government departments, and various research publications were collected from various departments located at state, districts and block headquarters of the state.

#### 1.5. Study Area and Selection of Sample

*1.5.1. Study Area:* As mentioned above, the study was carried out in Chhattisgarh, a state located in the central part of India. The state was purposefully selected as it was part of the institutionalization and functioning of the Third State Finance Commission in the state of Chhattisgarh during 2016. The Third State Finance Commission was constituted in the State as per the notification no. 02/L 8-9 (Part) /2016 /Fin./FCC, on dated 20<sup>th</sup> January, 2016.

The selection of sample Zila Panchayats (ZPs), Janapada Panchayats (JPs), GPs and the Villages were carried out through following a multi-stage sampling framework. Considering status of the PRIs in the state and scope of the study, it was designed to cover the five ZPs from the five administrative divisions of the state. While selecting the ZPs, it was also considered to cover at least few ZPs from the tribal areas of the state. Table-1.1 presents the administrative profile of the five ZPs/Districts.

**Table-1.1: Administrative Profile of the Sample ZPs/Districts**

Name of the ZP	Administrative Division	Number of JPs	Number of GPs	Number of Villages	Population (2011 census)
Narayanpur	Bastar	2	98	413	116504
Koriya	Ambikapur	5	286	638	453618
Jangir-Champa	Bilaspur	9	631	890	1394646
Baludabazar	Raipur	6	611	958	2278320
Durg	Durg	3	297	388	617248
<b>Total</b>		<b>25</b>	<b>1923</b>	<b>3287</b>	<b>4860336</b>

Source: Field Survey, 2017

**1.5.2. Selection of Sample Units and Justification:** For the purpose of field survey and data collection, five ZPs, 10 JPs, 20 GPs and 20 Villages from across the region of the state were selected based on certain criterion.

**Table-1.2: Coverage of the Sample Units of the Study (ZPs, JPs, GPs and Villages)**

Sl.No.	Administrative Division	Sample Units Covered under the Study			
		Name of the ZP	Number of JPs	Number of GPs	Number of Villages
1	Bastar	Narayanpur	2	4	4
2	Ambikapur	Koriya	2	4	4
3	Bilaspur	Jangir-Champa	2	4	4
4	Raipur	Baludabazar	2	4	4
5	Durg	Durg	2	4	4
	<b>Total</b>	<b>5</b>	<b>10</b>	<b>20</b>	<b>20</b>

Source: Field Survey, 2017

**Selection of the ZPs:** With regard to selection of the ZPs, the criteria like (i) Geographical Location of the ZP, (ii) position of the ZP with regard to total revenue in a period of five years (2011-16) and (iii) position of the ZP in total expenditure in the same period (2011-16) were followed. With regard to selecting the ZPs, in the first stage, the ZPs were categorised according to their geographical location based on administrative division. Then, the ZPs were categorized division wise according to their position in total receipt and expenditure during the periods of 2011 to 2016. From each division, one ZP was selected which is in middle position among the ZPs in total receipts and expenditure. In this way, five ZPs were selected from the state for the purpose of field study and data collection. Table 1.3 shows the geographical location and financial position of the five selected ZPs.

**Table-1.3: Location of the ZPs and their Financial Position in the Administrative Division**

Name of the ZP	Administrative Division	Location	Financial Position of the ZPs (2011-16)		
			Position within Division	Total Receipts (Rs in Lakhs)	Total Expenditure (Rs in Lakhs)
Narayanpur	Bastar	South	Moderate	2886.14	3246.92
Koriya	Ambikapur	North	Moderate	39043.85	13060.52
Jangir-Champa	Bilaspur	East	Moderate	0.0	532.36
Baludabazar	Raipur	Central	Moderate	29552.37	19176.24
Durg	Durg	West	Moderate	26440.64	20138.95
Avg.				19584.60	11230.99

Source: Third State Finance Commission, Chhattisgarh, 2017

**Selection of the JPs:** In the second stage, from each ZP, two JPs were selected for the purpose of field study and data collection. The JPs were selected on the basis of their geographical location and financial position of the JP in the ZP. Based on this formula, one JP near to ZP headquarters and one distant JP were selected from each sample ZP of the state. All together 10 JPs were selected applying the above formulae and among 10 JPs, four JPs were selected from the tribal areas of the state.

**Selection of the GPs:** In the third stage, 20 GPs (two from each JP) were selected on the basis of their geographical location, scenario of functioning and finances of the GP in the JP. On this basis, one GP near the JP headquarter and one distant GP were selected for collection of field data.

***Selection of Villages:*** From each GP, one village was selected for the purpose of field survey and data collection. On this basis, 20 Villages were covered under this study which is mostly located in the GP headquarters of the study area. While selecting the village, it was considered to look into the existing development patterns and role of GP in providing basic services in the village.

***Selection of the Respondents:*** Under this study, various categories of respondents were covered to gather information from them on various issues of the PRIs like (i) finances of the PRIs, (ii) functions and functionaries and (iii) implementation of various schemes and programmes by the PRIs and their overall implication. It was attempted to explore the various components of the finances like (i) own revenues of the PRIs, (ii) grants received from the central and state government and (iii) ways of improving the own revenues of the PRIs. Considering all the issues, it was attempted to interact with various stakeholders like (i) Elected PRI Members, (ii) Functionaries of the PRIs and (iii) the Citizens.

#### **1.6. Development of Research Tools and their Application**

For the purpose of collection of data from various sources, a set of research tools were developed and these tools were applied for collecting data from various sources. In this case, two types of tools were developed viz. (i) a checklist for conducting FGD and (ii) a questionnaire for conducting in-depth interaction with various stakeholders such as PRI Members and Functionaries. These research tools were developed and also piloted in few villages of the state. In these tools, a separate section was added for the PRIs of the scheduled areas (PESA Areas).

Apart from the above mentioned tools, a checklist was also developed to collect data from various government departments and PRIs-ZPs, JPs and GPs of the state. The checklist was developed while incorporating various aspects of the finances of the PRIs and other issues such as functions and functionaries of the PRIs in the study area.

Table 1.4 presents the types of tools developed for this study and their application for the collection of data.

Table-1.4: Various tools and their Application

Tools	Application of the tools	Target Respondents
Questionnaire for in-depth interview	The in-depth interview questionnaire was used for collection of data from the elected PRI Members and Functionaries.	PRI Members such as Ward Members, Sarpanches, JP Chair Persons and Chief Executive Officers (CEOs), ZP President and CEOs in the selected areas.
FGD Checklist	The checklist was used for conducting FGDs at the village level.	Citizens in the sampled Villages.
Questionnaire for Collection of Data from Secondary Sources	Three distinct types of questionnaire were developed and used for collection of data from ZPs, JPs and GPs of the study area.  A questionnaire was also developed and employed for collection of data from various departments of the state government.	ZPs, JPs, and GPs of the study area..  Government Departments like P&RD, Finance, Forests, Revenue, Excise, and Women and Child Development.

### 1.7. Data Collection Process and Steps

The data collection process was based on several rounds of exploratory field visits and extensive discussions with various stakeholders.

**1.7.1. Initial Visit and Interaction with SFC Functionaries:** At the outset, the study team visited and interacted with the key functionaries of the SFC of Chhattisgarh since the study was conceptualized in the context of the formation of the Third SFC of the state in 2016. At this stage, some initial data were collected from the SFC office and it was analysed to further conceptualise the study and develop questionnaire for field data collection.

**1.7.2. Collection of Field Data:** The data collection process was carried out through various steps. In the first step, interaction was held with the key functionaries of the SFC. At this stage, a detailed field visit plan was chalked out and communicated to the Chief Executive Officer (CEO) of the five ZPs of the state.

In the second stage, training for field investigators was organized at Raipur, the capital city of Chhattisgarh. In this training, there was discussion regarding (i) various questionnaires developed for data collection and (ii) plan of action for field visit and data collection. After training, the research team proceeded to the ZPs for the collection of data. In this phase, an intensive field work was carried out from the month of September 2017 to October, 2017. It was started from Durg ZP and ended at Narayanpur ZP of Bastar Division with a study team of five field investigators and two supervisors.

### **1.8. Limitations of the Study**

This study was designed to capture overall scenario of the functioning of the PRIs in Chhattisgarh and the issues of Fiscal Decentralisation that have emerged in the state. This research study was also designed to examine the status of devolution of powers and functions to the PRIs and status of the OSR of PRIs in the state. In this context, this study has taken the institutionalisation of the SFC and the prevailing fiscal scenario of the state as a context to understand the overall issues of Fiscal Decentralisation and finances of the PRIs in the state. However, at the same time the study faced various challenges in its various stages of work. These challenges have been summarised in the section below.

Firstly, though the study was designed to examine the finances of the PRIs and services being provided by them at their respective levels in the context of formation of the Third SFC, but poor quality of data managed by various government departments on this subject affected to achieve the desired objectives.

Secondly, through this study, it was intended to capture the fiscal scenario of the PRIs located in the PESA Areas and what development programmes can be implemented to achieve sustainable development of the tribals of these areas. However, in some cases, it was quite difficult to reach the area and interact with various stakeholders because of prevalence of Left Wing Extremism (LWE).

And last but not the least, prevailing unawareness among some stakeholders regarding finances of the PRIs and role of the SFCs, affected the overall data collection process. It was quite difficult to assess the impact of various schemes and programmes and money utilized for this purpose as in some cases people are unaware about this.

## CHAPTER - 2

### Conceptual Framework and Review of Literature

#### 2.1. Introduction

In the recent years, the literature on fiscal decentralisation and finances of the local governments has received academic importance. It is observed that during last few years, serious attempts have been made by the scholars to understand the effects of decentralisation on improving the finances of the local governments and strengthening service delivery system of these institutions and its overarching implication on strengthening local governments in various parts of world. Some scholars (for example Roy Bha land Richard Bird, 2018) have also been tried to focus on more critical issues of fiscal autonomy of Local Government like issues of Adequacy and Predictability. On this basis, the literature review of this research has tried to examine the conceptual, theoretical and empirical literatures which are connected with the decentralisation and fiscal decentralisation discourses. Through this review, an attempt has been made to establish a causal relationship between effects of decentralisation on improving the finances of the rural local governments while focusing the case of PRIs in India. Furthermore, considering the increasing role of PRIs towards improving the service delivery system in various states of India, particularly in Chhattisgarh, it has been tried to examine literature available on this issue and summarises the key findings of these literatures.

#### 2.2. Conceptualising Fiscal Decentralisation

Over the last two decades, many countries around the world have been embarking on the issues of decentralisation. According to Dillinger (1994), out of 75 developing and transitional countries covered in a recent survey, 84 percent have embarked on a certain type of decentralisation process. Asfaw *et al* (2004) summarises that decentralisation is a complex and multifaceted concept that involves the shifting of fiscal, political and administrative tasks to lower level governments. Decentralisation as a process of making administration effective emerged from the ancient period of time in different countries with an ambitious goal to produce better governance, in the form of decentralised administration. Decentralisation can help mobilise resources, introduce locally and regionally diverse solutions and promote equitable growth by bringing the poor into mainstream development (Reddy and Mohapatra, 2017). It is often argued that decentralisation is a more effective and efficient framework for delivering pro-poor programmes. The perceived benefits of decentralisation range from stimulation of economic growth and alleviation of rural poverty to strengthening civil society and reducing the responsibilities of the center

(Manor, 1999). One of the principal motivations for decentralising of political, administrative and fiscal systems in developing countries is the belief that this will help to catalyse the process of harnessing the developmental potential and improve the living conditions of the people, particularly the disadvantaged sections (Rao and Raghunandan, 2011).

According to Bardhan (2002), decentralisation has been at the centre stage of policy experiments in the last two decades in the case of large number of the developing and the transitional economies in Latin America, Africa and Asia. The decentralisation process has been turned as a key policy process in the developing and the transitional countries since the 1970s with the major claim of the virtues and advantages of this process. The socio-economic and political rationale of the process of decentralisation has also been moved from the conventional aspects of culture, traditions and customs to the much deeper aspects of socio-economic issues such as poverty, equity and development. The goals of achieving social and economic change under the framework of decentralised governance have also received prominence. This departure has influenced the scope of the study of political science and public administration from the broader issues of examining the functioning of governments to much specific issues of governance and from the problems of centralisation to the advantages of decentralisation.

It is commonly recognised that there are at least three aspects of this decentralisation process, namely, political, administrative and fiscal decentralisation. The concept of Fiscal Decentralisation has attained enormous attention under the conceptual framework of Decentralisation. Understanding the finances of the local governments has emerged as a key area of study of decentralisation. The literature on 'fiscal federalism' which has evolved through different periods of time has provided a wide array of conceptual, theoretical and empirical evidences on issues pertaining to fiscal transfers to the local level governments. The concept of fiscal decentralisation has been extensively discussed in the academics as well as development practitioners circles (Oates, 1972; Marjit, 1999; Rao, 2000; Bardhan, 2002; Asfaw *et al.*, 2004; Oommen, 2006; Boex, 2009) and has attained prominence because of enormous attention given by different countries in the world while devolving fiscal powers and authority to the local self-governing institutions. (Mohapatra, 2013). It is argued that the essence of the decentralised governance is based upon some key factors such as people's participation, accountability, transparency and fiscal transfers (Braun and Grote, 2002; Tanzi 2001; Romeo, 1999; Crook and Manor, 1998; Litvack *et. al* 1998). Fiscal decentralisation, according to Oommen, (2008), is an integral subset of decentralisation and assumes significance because without its proper functioning decentralisation becomes inoperative and meaningless. Fiscal transfers have an important influence on the effective functioning of Local Governments, as it provides impetus to these institutions to work as institutions of self-governments.

According to Boex (2009) sound fiscal decentralisation reforms require sound decentralised finances as well as sound decentralised governance and administration. Fiscal autonomy of the democratic decentralised institutions has been argued on the ground that the guarantees for local autonomy lies in the way local governments have at their disposal financial resources which they can autonomously deploy to implement their local level development. Without financial resources any decentralised governance system is empty. Therefore, financial resources must cement autonomy (Department of Economic and Social Affairs, UN). Bhal and Bird (2018) summarise that, Fiscal aspect of decentralisation requires the central government to give subnational governments some power to make spending and financing decisions.

As decentralised governance needs requisite powers for effective functioning and service delivery, so the transfer of powers can help to decide the allocation and distribution of public resources, the powers to implement policies and programs and the power to raise and spend public revenues for these as well as other purposes (Johnson, 2003). The fiscal portfolio of the local self-governing institutions is based upon income from 'own revenues' and 'assigned and devolved revenues' of the government and semi-government organisations (Sahasranaman, 2012). Banarjee (2013) highlights that in order to have more effective rural governments, it is important to have clear and explicit assignment of expenditure and revenue functions. Weak fiscal devolution can make the democratically decentralised institutions handy by creating a culture of dependency syndrome.

However, some scholars (for example Bhal and Bird, 2018) have raised doubts about the success of fiscal decentralisation. Examining the cases of various countries, Bhal and Bird (2018) have observed that 'perhaps the most important lesson one can learn from examining the practice of decentralisation in developing countries is that there is no one best way to get it right. This is because 'getting it right' means designing a program that not only matches the diverse objectives of fiscal decentralisation, which differ from country to country, but that can also be implemented in the specific and diverse (and usually changing and uncertain) conditions that exist at different times in different countries. On the other hand, experience shows that there are many ways to get decentralisation wrong. They further argue that 'unless fiscal empowerment (in terms of the right to make decisions about taxing and spending) is matched by political empowerment (so that these decisions are made by elected officials responsible to local citizens), theory, empirical studies and experience all suggest that devolution may not necessarily lead to good result'.

The conventional wisdom in the fiscal federalism literature, as narrated by Oates (1972) is based on the notion that decentralisation is preferable when the tastes are heterogeneous and there are no spillovers across the jurisdictions. With spillovers and no heterogeneity, a central government providing a common level of public goods and services for all

localities is more efficient, with spillovers decentralisation leads to under provision of local public goods, as local decision makers do not take into account benefit going to other districts (Bardhan, 2010). The theory of fiscal federalism argued by Oates in 1972 is examined and debated by scholars in various ways. Bardhan (2010) argues that the issue of spillovers is less relevant when the public goods are more local like local roads, minor irrigation, village health clinics and sanitation, identification of beneficiaries of public transfer programs etc. Nonetheless, arguments on transfer of the fiscal powers and resources from the central to the local level of government is linked with the idea that 'numerous economic benefits arise from shifting public finances closer to the people including a more competitive and innovative public sector, improved allocative efficiency and a more competitive and innovative public sector'.

In recent years, some scholars (Bagchi, 2001; Rao, 2000; Rao and Sen, 2011; Congleton, 2006; Oates, 1972) have attempted to make a scholarly comparison between the early theories of fiscal federalism and the recent theories of fiscal federalism keeping in mind the rapid economic growth, globalisation led development and policy reforms on decentralisation. According to Rao (2011), while the traditional theories called the first generation theories formerly assumed as a benevolent state, the second generation theories draw on the development of the theory of public choice and industrial organisation. The first generation theories are largely based on the famous Tiebout (1956) Model in which it is argued that when different localities provide varying mixes of public services financed from the tax revenues collected from the local population, people will tend to vote with their feet moving and settling with those localities where they perceive that they get the most appropriate mix of services for the taxes they pay. However, Oates (1972) believed that people in decentralised systems are better voters and exercise their preferences and influence the local decisions better through ballot, which has been conceptualised under the 'Decentralisation Theorem'. However, it is observed by few scholars that the first generation theory has propounded two significant aspects of fiscal decentralisation- (i) as an effective vehicle for better political negotiation and achievement of better delivery of services (ii) and a means of achieving spillover externalities of services.

In the second generation fiscal federal theory, an attempt has been made to defuse the Tiebout (1956) Model as well as Oates (1972) idea of the decentralisation theorem. The theory of decentralisation in the current period is heavily relied on the existing political scenario, institutional arrangements and rapid economic expansion, as well as outcomes of severe contestation between the state and the market forces. In the context of emergence of new institutions, competitive political parties and transition from a planned to a market economy (Rao; 2003 cited in Litvak, Ahmed and Bird, 1998), the policies of decentralisation has been changed. Such scenario has been affected on theorising fiscal

decentralisation. It is realised by some scholars that the ongoing process of fiscal decentralisation is both political (participation, accountability and transparency) and economic (fiscal transfers and taxation) in nature. Summarising this Bardhan (2010) highlights that the traditional theory of fiscal federalism is now being extended to the political economy setting, with the introduction of transaction costs in the political markets, or political agency problems between the ruler and the ruled, between the politicians/bureaucrats and the electorate, and for reasons mentioned above these transaction and agency costs may be much more serious in the context of developing countries. The Second Generation theory emphasises the importance of incentives generated by local tax generation for fostering local economic prosperity (Weingast, 2009). These debates have led into more serious thinking about the political economy of fiscal decentralisation and have encouraged many scholars to delve on this issue in the recent period. The present research work is based on this model.

In India, the emergence of the two important and much debated events such as the constitutional reforms in 1992 and the economic reforms in 1990 one believed to have brought the modern local self-governance system in forefront to achieve faster development through rapid economic growth (Bardhan, 2002). The concept of decentralisation has been explored by a number of scholars on the basis of emergence of decentralisation reforms in the advent of constitutional reforms and implementation of 73<sup>rd</sup> Amendment Act in 1992. The Act has provided a fresh impetus to the rural local governments of India while devolving to them necessary powers and functions. This act provided with utmost emphasis on the devolution of powers including fiscal powers, which is a key component of the decentralisation agenda. However, it is argued that the Act was not enacted for the transfer of the point of delivery of goods and services. The whole essence of the act is to improve functional performance and delivery (Rajaraman, *et. al.* 1996). It was suggested that the functions of 29 subjects under the 11<sup>th</sup> Schedule of the Indian Constitution will have be devolved to the PRIs for ensuring effective delivery of goods and services.

### 2.3. Empirical Evidences

The effects of decentralisation on improving the finances of the local government, particularly rural local governments have been examined by various scholars through a wide array of research studies conducted by them in various parts of the globe. The outcomes of these studies have highlighted a wide array of issues which are linked with various aspects of finances of the local governments such as (i) status of fiscal devolution and legal provisions associated with this process, (ii) Own Revenues of the Local Governments and status of taxation, (iii) Transfers of Revenue from the upper level of governments (Central and State Governments) and (iv) overall impacts of fiscal devolution on improving service delivery system of the local governments.

In the case of India and Chhattisgarh, empirical studies have been conducted (for example Oommen, 2004; Sahasranaman, 2012) and results of these studies demonstrate about the effects of decentralisation on finances of the PRIs as unit of local governments. It is argued through these studies that a significant component of the 73<sup>rd</sup> amendment is vesting fiscal powers to the PRIs. An important component of such process is based on the collection of tax revenue from the local sources, as assigned by the states to these institutions. However, some scholars (Joseph, 2001; Das, 2003; Muralidharan, 2014) have observed that despite the presence of progressive governance system such as Panchayats in rural areas, the process of development has not been achieved the desired result. In many cases the issues of institutional arrangement and power devolution have unsettled which leads into confusion and conflicting scenario between the elected members and government officials of the PRIs.

Examining the result of empirical studies conducted by various scholars in India and other parts of the globe, this section has tried to capture the result of some of these studies and draw key issues emerged from the studies.

***2.3.1. Fiscal decentralisation is Key to Make Local Government effective:*** Over the last few decades, empirical studies on Fiscal Decentralisation have been conducted by scholars in various countries of the world. On the one hand, many scholars have found that decentralisation is the key to bringing effectiveness in the functioning of local institutions and effective institutions are tantamount of promoting socio-economic development (Johnson, 2003; Islam, 2004; Harsha, 2005; Monditoka, 2010; Sangita and Jyothi, 2010). Institutions are panacea and decentralisation is a means to promote effective institutions. Further, although decentralisation does not automatically lead to development progress, efficient decentralised government and institutional arrangement are key elements of good governance. They are the basis for the structural poverty reduction and sustainable development (Johnson, 2003).

On the other hand, there are robust arguments on devolving fiscal powers to the Local Governments which can make them effective, accountable and transparent. It is argued that provision of services responding to local needs and preferences in a decentralised government system depends to a large extent upon the willingness and ability of the local governments to raise revenue from their own sources (Jena and Gupta, 2008). The revenue raising power of the local governments are mainly linked with the extent of power devolved to them by the Central and State Governments. Financial responsibility is a core component of decentralisation. If local governments are to carry out decentralised functions effectively, they must have an adequate level of revenues - either raised locally or transferred from the central government - as well as the authority to make decisions about expenditures. (World Bank, 2001).

**2.3.2. Fiscal Decentralisation to PRIs can make them effective:** Understanding the finances of the local governments has emerged as a key area of study of the decentralised governance and devolution. In the case of India, the post-73<sup>rd</sup> Amendment Act has witnessed a number of studies carried out by various scholars to examine overall issues of Fiscal Decentralisation and finances of the PRIs in various states (Reddy, 2003; Reddy and Sreedevi, 2004; Jena and Gupta, 2008; Rao, 2008; Rajaraman 2017; Reddy and Mohapatra, 2017). The evolution of decentralisation reforms and the emergence of the decentralised governance as institutions of participatory decision-making and implementation of service delivery programmes was part of the process of the democratic reforms in India. The post-1990s democratic reforms in the country emphasised much on the essence of the deepening of democracy and rejuvenation of the grassroots democratic institutions, which ultimately paved the way towards the institutionalisation of the PRIs in rural India. It was realised that human development issues such as health, education, sanitation and drinking water, can be addressed effectively, through effective and financially sound PRIs. Rajaraman (2017) has observed that Panchayats develop more local revenue resources, arguing that widespread local tax collection would strengthen local government in confrontation with local elites and make it less susceptible to elite capture. It is also argued that, the PRIs should have the rights to collect taxes from the private taxpayers (Marjeet, 1999) which is not reflected in the tax decentralisation agenda of the various states including Chhattisgarh. However, the financial status of these institutions remains elusive despite a number of studies on rural decentralisation in India since the enactment of the act (Jha, 2002 cited in Gulati, 1996; Oommen, 1998; Rani, 1999).

A main body of the empirical literature highlighted that PRIs are better to address the development needs of people through effective fiscal power like capacity of generating revenues and spending it for welfare of people. Oommen (2006) argues that fiscal decentralisation is the fiscal empowerment of the lower tiers of the government which involves the devolution of taxing and spending powers along with the arrangements for rectifying mismatches in resources and responsibilities. The autonomy for Panchayats in making decisions on spending priorities comes from two sources. One, the revenue generated from their own sources, and two, the total amount of fund available at their disposal (Jha, 2002). It is observed while in states such as Kerala, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Tamil Nadu, West Bengal, Sikkim, Chhattisgarh, Gujarat and Haryana have devolved desired powers to the PRIs, other states such as Odisha, Bihar and Jharkhand are lagging behind in the process (MoPR, 2012). Further, the study conducted across Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu, Odisha, Punjab, Haryana, Assam and Goa also discovered that most states granted a plethora of functional responsibilities but there was no executive follow-up of granting adequate powers, staffs and additional financial resources (Fernandes, 2003).

However, after 25 years of enactment of the 73<sup>rd</sup> amendment act, the fiscal position of the PRIs in different states are observed to be highly disarrayed and asymmetric in nature. Mohapatra (2013) observes that experience from different states reveals that the fiscal devolution process has more or less confined to the mere delegation of authority without devolving powers of taxation and revenue generation. There is no mechanism devised to assess or map the potential source of revenue of the PRIs and therefore no mandatory targets have been set in this regard. Further, some scholars have attributed the factors like low level of awareness among the elected members and functionaries which has also hampered the finances of the local governments/PRIs in various states of India. Examining the case of Andhra Pradesh, Reddy and Sridevi (2004) observed that low income levels in villages result in low tax revenue collection, so GPs income is meagre.

### ***2.3.3. Fiscal Decentralisation to PRIs in Chhattisgarh-A Review of Empirical Literature:***

In the case of Chhattisgarh some scholars (Rajaraman and Sinha, 2007; Jena and Gupta, 2008; Rajaraman, 2017) have tried to focus on the issues of fiscal decentralization to PRIs and its effects on making PRIs effective. It is observed by these scholars that a significant component of the 73<sup>rd</sup> Amendment is vesting fiscal powers to the PRIs. An important component of such process is based on the collection of tax revenue from the local sources, as assigned by the states to these institutions. It is observed from the devolution index study report prepared by Ministry of Panchayati Raj (2015-16) that the PRIs have been enjoying power of raising own revenues from various sources. The own revenues of the PRIs have been increased which is reported by the Second SFC of the state. The PRIs have utilised the funds for various service delivery purpose like improving infrastructures in the villages. However, still there are gaps remain in the fiscal decentralization agenda which has been observed from the studies conducted by various scholars and by the Second SFC of the state.

Examining the case of four states of India, including Chhattisgarh, Rajaraman and Sinha (2007) observe that functional transfer to rural local bodies is dealt within a purely qualitative manner based on administrative notifications without an associated budgetary provision. Further, though there is a separate demand for transfer of funds to PRIs under the state budget, not all transfers to PRIs take place within these grants. Jena and Gupta (2008) examining the case of four states including Chhattisgarh observed that 'assigned tax rights are not fully utilised by the Panchayats and non-tax revenue is the dominant source of their own revenue'.

### ***2.3.4. Role of SFCs quite essential for strengthening Fiscal Decentralisation Regime:*** The SFCs have been institutionalised to examine the fiscal relationship between the states and the local governments (the PRIs as well as ULBs) with regard to the collection of tax

revenues by the latter and to suggest the necessary recommendations thereon. Article 243 (I) and 243(Y) of the Indian Constitution spelt out the tasks for the SFCs. The most critical function of the SFCs is to determine the fiscal transfer from the state to local governments. Article 243(I) 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 (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor on these matters. Constitution of the SFC at a regular interval of five years is a mandatory requirement for states.

Role of SFCs and their contribution in strengthening finances of the PRIs have been examined by many scholars (Palhariya, 2003; Oommen, 2010; Reddy and Mohapatra, 2017) in various states of India including in the state of Chhattisgarh. Examining the case of Andhra Pradesh and Odisha, Reddy and Mohapatra (2017) observed that in both states serious efforts have not been taken up for implementing the recommendations of various SFCs. It is further observed by some scholars that the SFCs have missed a great opportunity to contribute to the process of building fiscal federalism (Oommen; 2010) and their recommendations are largely ignored which hampered the spirit of self-governments (Palharya, 2003). The quality of the SFC reports in different states also shows heterogeneity. Recommendations of different State Finance Commissions to expand the own source domain of PRIs havenot been heeded by some state governments. In certain cases the existing tax assignments have been abolished by the legislature (Devolution Index Study Report; 2015-16). However, the formation of SFCs in various states has become a reality despite mismatches observed in the case of implementations of their reports. State wise experience also suggests that in some cases the PRI Members and functionaries are not aware about the functioning of the SFCs and their recommendations and status of implementation in various states.

In the case of Chhattisgarh, two SFCs have been formed before the formation of the Third SFC in 2016. In the case of Second SFC, it is observed through this study that various key recommendations have not been translated into Action Taken Report (ATR). Even in some cases, the state has not implemented fully some key recommendations despite preparation and adoption of the ATR.

#### **2.4. Issues identified from the Review of Literature**

From the above mentioned review, it is evident that while the conceptual and theoretical literature related to understanding decentralisation and fiscal decentralization, in particular, are quite robust, their empirical findings are not very strong because of (i) limited studies available on this issue and (ii) less attention provided by the social science researchers on this subject. In this context, the present study tries to provide some new insights through conducting a micro-study in the state of Chhattisgarh.

It is further observed that many studies on institutional arrangements and functioning of PRIs have been carried out in various states of India with an objective to understand the status of functioning of these institutions without focusing much on finances of these institutions. Many of them have carried out to understand the implementation of legal provisions such as the 73<sup>rd</sup> amendment act, the PESA Act and state acts in various states including in the state of Chhattisgarh.

Further, these empirical studies have also carried out through covering two or more than two states including Chhattisgarh, with an aim to assess the state specific progress. But no sincere efforts have taken up to explore micro studies regarding the finances of the PRIs. Further, efforts made by the PRIs in strengthening their own revenues have not been highlighted much in these studies.

Considering the above mentioned research gap, this study was designed to explore the finances of the PRIs in Chhattisgarh covering five districts of the state. Further, it was attempted to explore their initiatives of strengthening their own revenues in the study area. Since finances of the PRIs mainly based on the existing legal provisions and state policies, so it was attempted to examine how the state government of Chhattisgarh has devolved powers and functions to the PRIs and their status of implementation in the state.

## **2.5. Research Questions**

Considering the outcomes of the review of literature and scope of the research study, it was designed to address the following research questions through exploring the empirical data.

Firstly, how the PRIs are institutionalised and are functioning in the state and how and to what extent the state legal provisions have been supported towards effective functioning of the PRIs in the state?

Secondly, what is the status of fiscal devolution to the PRIs in the state? What are the main sources of revenues of the PRIs and what are the transfer revenues to the PRIs from the central government and the state government?

Thirdly, what are the main sources of revenues of the PRIs in study areas and how it has supported towards implementing various development programmes in these areas? How the institutionalisation of the SFCs has impacted on the finances of the PRIs in the state?

Finally, what are the challenges faced by the PRIs with regard to fiscal and functional devolutions and how it has affected their progress as an unit of self-government in the state?

## CHAPTER - 3

### Finances of Chhattisgarh

#### 3.1. Introduction

One of the key components of examining the finances of the Local Government is to understand the financial scenario of the state or nation. The most key aspect of understanding the finances of the state is to shed light on their Own Source Revenues and the transfers from Central Government under various heads. This helps to understand macro-financial scenario of the state and embarks to link it with the financial scenario of the local governments and draw some conclusions on the basis of analysis of data. Considering this, this chapter is designed to examine the financial scenario of the state of Chhattisgarh since the finances of the rural local governments (PRIs) largely based on the financial scenario of the state, in particular the own revenues of the state. It further tries to draw the rationale of the present study while linking the summary of the discussions with the broader research goal. At the end of this chapter, it is attempted to present a projected figure of own revenues of the state and how and to what extent it can influence the revenues of the PRIs in the state.

#### 3.2. Profile of the State

Chhattisgarh is one of the youngest states of India having a geographical area of 135,000 square kilometers. Constituted on 1<sup>st</sup> November, 2000, the state is located in the heart of India, and 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.

The total population of the state as per 2011 census is 2.55 crores of which the total male population is 1.28 crores and the female population is 1.27 crores. It has one of the lowest population densities among the states, at 189 per sq.km, as against all India average of 382. With 44% of its land area under forest and vast mineral resources, Chhattisgarh is a resources-rich state in India. Table 3.1 presents about the key features of population of the state.

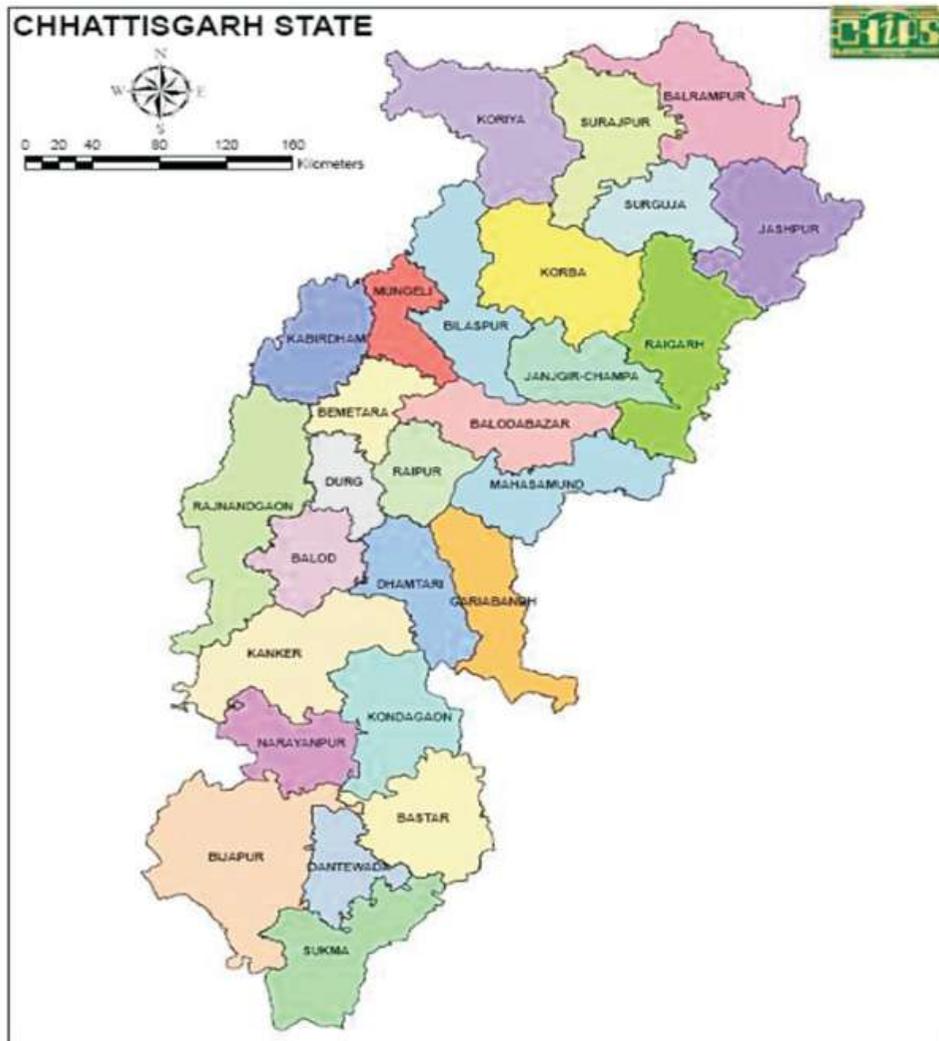


Table 3.1: Important Indicators of Population of Chhattisgarh

Important Indicators of Population				
Indicators	Chhattisgarh		India	
	2001	2011	2001	2011
Population (in Lakh)				
Total Person	208	255	10,287	12,106
Male	105	128	5,322	6,231
Female	104	127	4,965	5,874
Rural Person	166	196	7,425	8,335
Male	83	97	3,816	4,276
Female	83	98	3,609	4,058
Urban Person	42	59	2,862	3,771
Male	21	30	1,506	1,954
Female	20	29	1,356	1,816
Decadal growth (%)	18.3	22.6	21.5	17.7
Urban Population (%)	20.1	23.2	27.8	31.2

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

### 3.3. Finances of the State

#### 3.3.1. Structure of the Own Source of Revenue

Chhattisgarh state government, like any other state government, has two sources of receipts - revenue and capital. Revenue receipts consist of own revenue (own tax revenue and non-tax revenue) and transfers from the Union Government (state's share of union taxes and duties and grants-in-aid). Capital receipts comprise non-debt (miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances) and debt receipts (internal sources) market loans, borrowings from financial institutions/ commercial banks - and Loans and Advances from GOI). The 14<sup>th</sup> Finance Commission recommended that the State Government be excluded from the operations of the National Small Savings Fund (NSSF), with effect from 1 April, 2015. The involvement of the States in the NSSF scheme with effect from 1 April, 2015, therefore, may be limited solely to discharging the debt obligations already incurred by them until that date (para 14.81). However, this study has taken the same into account as the study period is 2011-15, except 2015-16. It is also important to note here that funds available in the Public Accounts, after disbursement, is also used by the Government to finance its deficit. Expenditure is classified into revenue, capital and loan accounts. With the recent developments, plan and non-plan classification loses its relevance.

### 3.3.2. GSDP of the State

During 2011-12 and 2017-18, the average growth rate of Chhattisgarh state economy is 10.8 percent at current prices and 6.3 percent at constant prices (2011-12) (Table 3.2). The growth of economy of the state is fluctuating at aggregate and also at sectoral level due to various reasons.

Table 3.2: GSDP at current and constant prices (Rs. Crores)

Year	GSDP at current prices	Growth rate over previous year (%)	GSDP at 2011-12 prices	Growth rate over previous year (%)
2011-12	158073.82		158073.82	
2012-13	177511.32	12.30	165977.40	5.00
2013-14	206833.19	16.52	182579.45	10.00
2014-15	221142.37	6.92	185882.21	1.81
2015-16 (P)	234212.37	5.91	197068.84	6.02
2016-17(Q)	262263.36	11.98	213648.98	8.41
2017-18 (A)	291680.72	11.22	227866.31	6.65
Avg 2011-18		10.81		6.32

Source: Arthik Sarvekshan 2016-17 and 2017-18, Directorate of Economics and Statistics, Chhattisgarh.

Table 3.3: GSDP composition at current and constant prices (%)

Sectors	2011-12	2012-13	2013-14	2014-15	2015-16 (P)	2016-17 (Q)	2017-18 (A)	Avg 2011-12 2017-18
<b>GSDP composition at current prices (%)</b>								
Agriculture	18.10	19.15	18.42	19.32	20.14	21.5	22.16	19.83
Industry	47.27	45.94	47.42	45.90	43.39	42.29	41.01	44.75
Services	34.63	34.91	34.16	34.78	36.47	36.21	36.83	35.43
<b>GSDP composition at constant prices (%)</b>								
Agriculture	18.10	18.32	16.97	17.81	16.93	17.76	17.15	17.58
Industry	47.27	47.09	49.08	47.56	48.26	47.97	47.65	47.84
Services	34.63	34.58	33.95	34.63	34.81	34.27	35.20	34.58

Source: Arthik Sarvekshan 2016-17 and 2017-18, Directorate of Economics and Statistics, Chhattisgarh.

Table-3.3 shows that the industrial sector constituted around 45 percent at current prices and nearly 48 percent at constant prices followed by service sector (around 35 percent) and Agriculture sector (less than 20 percent).

### 3.3.3. Financial Position of the State Government

Table in Annexure-I presents the financial position of the state government for the period from 2011-12 to 2017-18RE (Revised Estimates). It also highlights Budget Estimate (BE) for the year 2018-19. The main sources of data are Reserve Bank of India (RBI), State Finances: A Study of Budgets (various years), 13<sup>th</sup> and 14<sup>th</sup> Finance Commission Reports, budget documents of state government ([http://finance.cg.gov.in/budget\\_doc/main\\_budget.asp](http://finance.cg.gov.in/budget_doc/main_budget.asp)) for various years.

### 3.4. Total Receipts of the State

The total receipts of the state increased from Rs.27577.39 crore in 2011-12 to Rs. 44571.54 crore in 2014-15 (Table in Annexure-II). It has further increased to Rs. 51367.65 crore in 2015-16 and estimated to increase further to Rs. 78527.17 crore (2017-18 RE) and Rs. 83096.13 crore (2018-19 BE). Of these total receipts, revenue receipts though constituted 93 percent in 2011-12 thereafter reduced to less than 90 percent till 2015-16. In 2016-17, its share was 91 percent. Again its share is estimated to decline to around 87 percent in 2017-18 RE and 2018-19 BE (Table-3.6).

In other words, share of revenue receipts in total receipts fluctuated between 85 per cent and 94 per cent during 2011-19. The corresponding increase in capital receipts is due to gradual decline/increase of Non Debt Capital Receipts/Public Debt Receipts (Table-3.4).

Table 3.4: Broad Composition of Total Receipts (%)

	Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 (RE)	18-19 (BE)
I	Total Revenue	93.80	89.14	85.17	85.11	89.68	91.26	87.33	87.69
1	State Own Revenue	53.56	53.19	51.67	46.18	43.39	41.84	40.95	41.16
2	Central Transfers	40.24	35.95	33.50	38.93	46.29	49.42	46.39	46.53
II	Capital Receipts	6.20	10.86	14.83	14.89	10.32	8.74	12.67	12.31
1	Non Debt Capital Receipts	4.67	4.66	4.38	0.45	0.58	0.30	0.39	0.38
2	Public Debt Receipts	53	6.20	10.45	14.45	9.73	8.44	12.28	11.93
III	Total Receipts (I+II)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Various years of Budget At a Glance and Budget in Brief of Chhattisgarh, [http://finance.cg.gov.in/budget\\_doc/main\\_budget.asp](http://finance.cg.gov.in/budget_doc/main_budget.asp) RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

### 3.4.1. Total Revenue Receipts

Of the total revenue receipts, though state own revenue is higher than the central transfers, the gap between the two presented a declining trend. The declining share of own revenue since 2015-16 is mainly because of higher Central Tax transfers following the 14<sup>th</sup> Finance Commission Award. The relative share of State own non-tax revenue showed a declining trend while own tax revenue showed an increasing trend from 2011-12 to 2013-14 and thereafter it is declining (Table 3.5).

Table 3.5: Broad Composition of Total Revenue Receipts (%)

Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 (RE)	18-19 (BE)	avg 11-18
Total Revenue	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1. Total Tax Revenue	65.85	68.47	69.34	63.46	71.18	70.33	66.66	67.22	68.24
A. State's Own Tax Revenue	41.41	44.07	44.75	41.41	37.06	35.29	35.63	35.72	39.70
B. Share in Central Taxes	24.43	24.40	24.59	22.05	34.12	35.04	31.03	31.50	28.54
2. Non-Tax Revenue	34.15	31.53	30.66	36.54	28.82	29.67	33.34	32.78	31.76
C. State's Own Non-Tax Revenue	15.69	15.61	15.92	12.85	11.32	10.56	11.25	11.21	12.92
D. Grants from the Centre	18.46	15.93	14.75	23.69	17.50	19.11	22.09	21.56	18.84
State Own Revenue(1A+2C)	57.10	59.67	60.67	54.26	48.38	45.85	46.88	46.93	52.62
Central Transfers (1B+2D)	42.90	40.33	39.33	45.74	51.62	54.15	53.12	53.07	47.38

Source: Various years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

It is also observed that the total revenue receipts of the State increased with year-on-year fluctuations and averaging at an annual average rate of around 18 percent during 2011-18 (Table 3.6). However, the growth rate has not been consistent in any of the components of total revenue which has reflected in the total revenue too. But the components of State Own Revenue i.e. own tax and non-tax revenues in terms of GSDP, showed almost a constant trend (Table 3.7). The consistent increase in the proportion of total revenue receipts in GSDP is mainly because of central transfers followed by 14<sup>th</sup> Finance Commission Award.

**Table 3.6: Broad Components of Total Revenue - Growth Rate over Previous Year (%)**

Item	12-13	13-14	14-15	15-16	16-17	17-18 (RE)	18-19 (BE)	Avg 11-18
TOTAL REVENUE	14.35	8.36	18.35	21.45	16.54	27.74	6.25	17.80
1. Total Tax Revenue	35.87	19.22	15.64	96.63	30.63	42.13	14.39	40.02
A.State's Own Tax Revenue	21.68	10.04	9.51	8.71	10.95	28.99	6.51	14.98
B.Share in Central Taxes	14.19	9.18	6.13	87.93	19.68	13.14	7.87	25.04
Total Non-Tax Revenue	12.36	10.85	85.73	-3.33	36.01	83.69	9.63	37.55
C. State's Own Non-Tax Revenue	13.74	10.51	-4.44	6.98	8.71	36.09	5.90	11.93
D.Grants from the Centre	-1.38	0.34	90.17	-10.31	27.29	47.61	3.74	25.62
State Own Revenue(1A+2C)	19.49	10.16	5.85	8.30	10.43	30.63	6.37	14.14
Central Transfers(1B+2D)	7.49	5.69	37.64	37.04	22.26	25.30	6.15	22.57

*Source:* Various Years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

**Table 3.7: Broad Components of Total Revenue - as percentage of GSDP (%)**

Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 (RE)	AVG 11-18
GSDP at Current Prices	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total Revenue	16.37	16.66	15.50	17.14	19.67	20.46	23.52	18.50
A State Own Revenue	9.35	9.94	9.40	9.30	9.52	9.38	11.03	9.70
State's Own Tax Revenue	6.78	7.34	6.93	7.10	7.29	7.22	8.38	7.30
State's Own Non-Tax Revenue	2.57	2.60	2.47	2.20	2.23	2.16	2.65	2.40
B Central Transfers	7.02	6.72	6.10	7.84	10.15	11.08	12.49	8.80
Share in Central Taxes	4.00	4.07	3.81	3.78	6.71	7.17	7.30	5.30
Grants from the Centre	3.02	2.65	2.29	4.06	3.44	3.91	5.19	3.50

*Source:* Various years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

### 3.4.2. State's Own Revenue

Table 3.8 highlights the composition of the State's Own Revenue during 2011-12 to 2018-19 years. The composition of state own revenue shows that (Table 3.7) nearly 3/4<sup>th</sup> of revenue is constituted by own tax revenue and remaining 1/4<sup>th</sup> by own non-tax revenue.

Table 3.8: Composition of SOR

(Rs. in Crore)									
Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 (BE)	18-19 (BE)	Avg 11-18
SOR	14141.32	17521.15	21372.3	24110.87	28748.84	29384.25	31124.84	34200.00	25075.45
SOTR	9830.45	12175.59	15300.3	17926.25	20085.85	21964.1	23420.64	26030.00	18341.65
SONTR	4310.87	5345.66	6072.00	6184.62	8662.99	7420.15	7704.2	8170.00	6733.81
Composition (%)									
SOR	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
SOTR	69.52	69.49	71.59	74.35	69.87	74.75	75.25	76.11	73.15
SONTR	30.48	30.51	28.41	25.65	30.13	25.25	24.75	23.89	26.85

*Key:* SOR-State Own Revenue, SOTR-State Own Tax Revenue, SONTR-State Own Non-Tax Revenue  
*Source:* Various years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17.

The State's account / estimates regarding own revenue (tax and non-tax) receipts for the period 2015-16 to 2018-19 BE given in Table 3.9.

Table 3.9: State Own Revenue - Estimates of State Government

(Rs in Crores)					
S No.	Source of Revenue	2015-16	2016-17	2017-18	2018-19
1	State Government's Accounts / Estimates	22290.00	24614.00	32153.00*	34200.00*
2	State Government's Accounts / Estimates	17075.00	18945.00	24438.00*	26030.00*
3	State Government's Accounts / Estimates	5215.00	5669.00	7715.00*	8170.00*

\* includes SGST and IGST

*Source:* Various Years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, 14<sup>th</sup> Finance Commission.

The main reason for lower realisation than estimation was less collection of stamps and registration fees, taxes on sales, trade etc., taxes on goods and passengers, taxes on vehicles, land revenue and taxes and duties on electricity. With regard to the State's non-tax revenue, it was significantly increased in the year 2017-18 and 2018-19 mainly because of increase in receipts under non-ferrous mining and metallurgical industries, major irrigation, forestry and wild life.

### 3.4.3. State's Own Tax Revenue (SOTR)

The main sources of tax revenues of the State are taxes on sales, trade, etc (Value Added Tax (VAT), State excise, taxes on vehicles and stamps and registration fees. Table 3.10

presents the composition of SOTR of Chhattisgarh. It shows that sales tax constitutes 53 to 56% of the own tax revenues of the State during 2011-17. But the revised and budget estimates of 2017-18 and 2018-19 respectively show higher proportions constituting nearly 61 percent mainly because of State GST and Integrated GST (Table 3.10). The other major sources of revenue are State excise (15-20 per cent), followed by taxes on goods and passengers, stamps and registration fees and taxes on vehicles.

**Table 3.10: Composition of SOTR (%)**

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE	2018-19
A. State's Own Tax Revenue (1 to 3)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1. Taxes on Income	0.10	0.05	0.05	0.05	0.00	0.00	0.00	0.00
2. Taxes on Property and Capital Transactions (i to ii)	10.42	9.10	8.48	8.63	9.07	9.06	9.00	9.41
i) Land Revenue	2.53	1.80	1.58	2.11	2.13	2.66	2.66	2.54
ii) Stamps and Registration Fees	7.90	7.31	6.90	6.52	6.94	6.40	6.34	6.88
3. Taxes on Commodities and Services (i to vi)	89.48	90.84	91.47	91.33	90.92	90.94	91.00	90.59
i) Sales Tax	56.07	53.16	55.29	53.66	52.17	52.42	60.80	60.97
ii) State Excise	14.91	19.07	17.77	18.41	19.55	18.18	15.09	16.73
iii) Taxes on Vehicles	4.69	4.55	4.54	4.48	4.86	5.20	5.52	5.76
iv) Taxes on Goods and Passengers	7.71	7.31	6.59	6.25	6.09	7.08	2.37	0.02
v) Taxes and Duties on Electricity	5.96	6.60	7.11	8.36	8.04	7.90	7.16	7.11
vi) Entertainment Tax and Others	0.15	0.15	0.16	0.16	0.22	0.15	0.05	0.00

*Source:* Various Years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

The tax-GSDP ratio during the study period has been presented in the table 3.11. The State's own tax revenue in relation to GSDP has been around 7 to 8%. The 14<sup>th</sup> Finance Commission, on the basis of their calculations, adopted a tax-GSDP ratio of 8.758 per cent for the State for the period 2015-2020.

**Table 3.11: Trends in Revenue Receipts of State (as % of GSDP)**

Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 RE
A. State's Own Tax Revenue (1 to 3)	6.78	7.34	6.93	7.10	7.29	7.22	8.38
1. Taxes on Income	0.01	0.00	0.00	0.00	0.00	0.00	0.00
2. Taxes on Property and Capital Transactions (i to iii)	0.71	0.67	0.59	0.61	0.66	0.65	0.75
i) Land Revenue	0.17	0.13	0.11	0.15	0.16	0.19	0.22
ii) Stamps and Registration Fees	0.54	0.54	0.48	0.46	0.51	0.46	0.53
iii) Urban Immovable Property Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Taxes on Commodities and Services	6.06	6.67	6.34	6.49	6.63	6.57	7.62
i) Sales Tax	3.80	3.90	3.83	3.81	3.80	3.79	5.09
ii) State Excise	1.01	1.40	1.23	1.31	1.43	1.31	1.26
iii) Taxes on Vehicles	0.32	0.33	0.31	0.32	0.35	0.38	0.46
iv) Taxes on Goods and Passengers	0.52	0.54	0.46	0.44	0.44	0.51	0.20
v) Taxes and Duties on Electricity	0.40	0.48	0.49	0.59	0.59	0.57	0.60
vi) Entertainment Tax	0.01	0.01	0.01	0.01	0.02	0.01	0.00

*Source:* Various Years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

#### 3.4.4. State's Own Non-Tax Revenue

The non-tax revenue of the State constitutes about 24-27% of its own revenues. The average annual growth rate of the last six years (2012-2019) has been 8.50%. Mining receipts (mineral, concession fees, royalties and other receipts), is one of the major sources of non-tax revenue receipts of the State.

#### 3.5. Projection of State's Own Revenue

In this study, an attempt was made to project the State's Own Tax Revenue and Non-Tax Revenue for the period 2017-22. Table 3.12 presents the projection of SOTR Growth Rate while Table 3.13 presents the projection of SONTR during the same period.

**Table 3.12: SOTR Projections 2017-22**

		2017-18	2018-19	2019-20	2020-21	2021-22
Our Projections Taking only SOTR Growth Rate	Gr. Rate Avg. 2012-13 to 2018-19 (%)			11.80	11.80	11.80
	(Rs. Crores)	23420.64	26030.00	29101.54	32535.52	36374.71

*Source:* Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

**Table 3.13: SONTR Projections 2017-22**

		2017-18	2018-19	2019-20	2020-21	2021-22
Our Projections Taking only SONTR Growth Rate	Gr. Rate Avg 2012-13 to 2018-19 (%)			8.50	8.50	8.50
	(Rs. Crores)	7704.20	8170.00	8864.45	9617.92	10435.44

*Source:* Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

Table 3.14 presents the projection of Own State Revenues of the state from 2017-18 to 2021-22 on the basis of combining both projected tax and non-tax revenues of the state.

**Table 3.14: SOR Projections 2017-22 (Rs. in Crore)**

	2017-18 BE	2018-19	2019-20	2020-21	2021-22
Projections Taking only SOR Growth Rate 12 %	31124.84	34200.00	38304.00	42900.48	48048.54

*Source:* Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

### 3.6. Expenditure of the State

The analysis is mainly to assess the revenue expenditure of the State over the last five years and to project the same for the award period. The objective is to assess to what extent the State's projected own revenue meets these liabilities. Devolution of funds to local bodies to an extent has been leveraged on the surplus.

The total expenditure of the State Govt. and its composition during 2011-12 to 2017-18RE and 2018-19BE is given in the table 3.15. The average annual growth rate of total expenditure of the State during 2011-12 to 2017-18 RE was 19.1%. However, the growth rate ranged between 15% (2013-14) and 35.6% (2017-18 (RE)). The growth rate of total expenditure fluctuated mainly because of drastic decline in loans and advances, in absolute terms as well as relative shares, initially to meet the increasing Revenue expenditure and then capital expenditure. The growth rate of capital expenditure is higher than that of Revenue expenditure since 2014-15, barring 2017-18RE, indicating an increasing expenditure trend on developmental activities.

Table 3.15: Total Expenditure and its Components

Expenditure	(Rs. Crores)										
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)	avg 2011-12 - 2017-18		
Total	27953.1	33780.0	38752.3	46206.1	51811.3	57968.3	78623.0	83179.3	47870.6		
Revenue	22628.0	26971.8	32859.6	39497.2	43701.1	48164.6	65392.1	68422.6	39887.8		
Capital	4056.4	4919.3	4574.2	6620.6	7945.0	9470.5	12735.4	14453.9	7188.8		
Loans and Advances	1268.7	1888.8	1318.5	88.3	165.2	333.2	495.5	302.7	794.0		
Composition (%)											
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Revenue	80.9	79.8	84.8	85.5	84.3	83.1	83.2	82.3	83.1		
Capital	14.5	14.6	11.8	14.3	15.3	16.3	16.2	17.4	14.7		
Loans and Advances	4.5	5.6	3.4	0.2	0.3	0.6	0.6	0.4	2.2		
Year on Year Growth Rate (%)											
Total		20.8	14.7	19.2	12.1	11.9	35.6	5.8	19.1		
Revenue		19.2	21.8	20.2	10.6	10.2	35.8	4.6	19.6		
Capital		21.3	-7.0	44.7	20.0	19.2	34.5	13.5	22.1		
Loans and Advances		48.9	-30.2	-93.3	87.1	101.6	48.7	-38.9	27.1		

Source: Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

The aggregate revenue expenditure of the State, as a percentage of GSDP, showed a continuous increase from 14.31 per cent in 2011-12 to 22.42 per cent in 2017-18 RE. All the components of revenue expenditure - social, economic and general services - contributed to increase (Table 3.16). Interest payments, pensions and salaries constitute around 2 percent of the revenue expenditure.

**Table 3.16: Expenditure Trends (as % of GSDP)**

Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 RE	AVG 11-12 17-18 RE
I Revenue Expenditure	14.31	15.19	15.89	17.86	18.66	18.36	22.42	17.53
A. Social Services	6.63	6.45	6.91	6.96	6.98	8.14	9.84	7.41
B. Economic Services	3.52	4.51	4.72	6.37	6.85	5.41	7.19	5.51
C. General Services	3.74	3.75	3.80	4.06	4.44	4.38	4.92	4.15
of which:								
Interest Payments and Servicing of Debt	0.82	0.76	0.70	0.80	1.00	1.10	1.19	0.91
Pensions	1.19	1.36	1.33	1.47	1.50	1.33	1.39	1.37
Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	0.43	0.48	0.47	0.48	0.38	0.44	0.47	0.45
II Capital Expenditure	2.57	2.77	2.21	2.99	3.39	3.61	4.37	3.13
III TOTAL (I+II)	16.88	17.97	18.10	20.85	22.05	21.98	26.79	20.66

*Source:* Various Years of Budget at a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

Interest Payment showed a declining trend in terms of total revenue expenditure from 5.7% in 2011-12 to 4.5% in 2014-15 (Table 3.17) again showed an increasing trend in subsequent two years. However, the revised and budget estimates of 2017-18 and 2018-19 respectively showed a down trend. Committed and pension expenditure trends are given in table 3.17.

Table 3.17: Committed Expenditure Trends (%)

	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018 RE	2018- 2019 BE	Avg 2011-12 2017-18
I Interest Payments and Servicing of Debt									
Rs. Crore	1293.20	1353.49	1450.53	1763.61	2348.91	2886.83	3477.80	4067.55	2082.05
as % of TRR	5.00	4.58	4.53	4.65	5.10	5.38	5.07	4.77	4.90
as % of SOR	8.76	7.67	7.46	8.57	10.54	11.73	10.82	8.60	9.36
as % of TRE	5.72	5.02	4.41	4.47	5.37	5.99	5.32	5.00	5.19
II Administrative Services									
Rs. Crore	2068.72	2254.64	2707.83	3015.43	3307.94	3614.70	4921.63	5290.02	3127.27
as % of TRR	8.00	7.62	8.45	7.95	7.18	6.73	7.18	7.26	7.59
as % of SOR	14.01	12.77	13.93	14.65	14.84	14.69	15.31	15.47	14.31
as % of TRE	9.14	8.36	8.24	7.63	7.57	7.50	7.53	7.73	8.00
III Pension and Miscellaneous General Services									
Rs. Crore	1877.99	2412.30	2752.04	3249.68	3518.73	3486.54	4052.95	5359.89	3050.03
as % of TRR	7.26	8.16	8.59	8.57	7.64	6.49	5.91	7.36	7.52
as % of SOR	12.71	13.67	14.15	15.79	15.79	14.16	12.61	15.67	14.13
as % of TRE	8.30	8.94	8.38	8.23	8.05	7.24	6.20	7.83	7.90
IV= (I+II+III) Committed Expenditure									
Rs. Crore	5239.91	6020.43	6910.40	8028.73	9175.59	9988.07	12452.37	14717.45	8259.36
as % of TRR	20.26	20.35	21.56	21.17	19.92	18.60	18.16	20.20	20.00
as % of SOR	35.47	34.11	35.54	39.01	41.17	40.58	38.73	43.03	37.80
as % of TRE	23.16	22.32	21.03	20.33	21.00	20.74	19.04	21.51	21.09

Note: TRR: Total Revenue Receipt, TRE: Total Revenue Expenditure

Source: Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

**3.7. Financial Position of the State:** The financial scenario of the state as discussed in the chapter shows that the net effect of the trends in revenue receipts and revenue expenditure led to revenue surplus in the first two years and slipped into deficit in 2013-14 and 2014-15 (Table 3.18).

Table 3.18: Financial Position of the State - as % of GSDP

Item	11-12	12-13	13-14	14-15	15-16	16-17	17-18 (RE)
Revenue Surplus (+)/Deficit (-)	2.05	1.47	-0.39	-0.71	1.01	2.11	1.09
Fiscal Deficit	-0.51	-1.50	-2.45	-3.65	-2.32	-1.57	-3.34
Primary Surplus (+) /Deficit (-)	0.31	-0.74	-1.75	-2.86	-1.41	-0.54	-2.22

Source: Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

The revenue surplus is shown in subsequent years. Further, the 14<sup>th</sup> Finance Commission had recommended the combined fiscal deficit of States in roadmap from 2.76 per cent of GDP in 2015-16 to 2.74 per cent of GDP in 2019-20. The fiscal deficit has also been maintained at a low level and has not exceeded the target of 3% as per the observation of the 13<sup>th</sup> Finance Commission. While the state's fiscal deficit for 2015-17 is, though, lower than that of 14<sup>th</sup> FC, it is higher in 2017-18. This requires the attention of the state government to follow the Fiscal Responsibility and Budget Management (FRBM) on one hand and smooth flow of resources to local bodies on the other.

## CHAPTER - 4

### Rural Decentralised Governance and Devolution in Chhattisgarh

#### 4.1. Introduction

The Indian Constitution under its federal character has provided ample provisions for sharing the powers between Centre and States as well as States and local governing institutions (both at rural and urban level). The prominent federal characters include inter alia, division of powers between the Centre and States. However, the evolution of the PRIs since 1992 after the enactment of 73<sup>rd</sup> Amendment Act has also influenced the power-sharing mechanism between the Central Government and the States including in the state of Chhattisgarh. It is believed that, the PRIs in Indian federal polity, enjoying such residual powers which are conferred by the State legislatures. The power sharing exercise between the States and the PRIs provides many key trends. Especially, the fiscal power vested to the PRIs, often question the issue of rationalisation in power devolution arena, thereby providing a platform for academic discussion. Nonetheless, the last 25 years of Indian Federal Polity has witnessed extensive reforms on fiscal decentralisation which tend to give a fresh academic look on implications of such policies at the ground.

Given this, in this chapter an attempt has been made to explore the status of devolution of powers to the PRIs in Chhattisgarh and the progress so far made towards achieving the agenda of devolution in the state.

#### 4.2. Rural Decentralised Governance in India and Fiscal Devolution

*4.2.1. Policies of Fiscal Devolution to PRIs in India:* India has been witnessing the evolution and institutionalisation of the PRIs in rural areas since the pre-independence period. However, the real journey of PRIs started with the passage of the 73<sup>rd</sup> constitution amendment act on 24<sup>th</sup> April 1993. This initiative provided impetus to the PRIs of India by devolving requisite powers and functions, which are political and economic in nature. Devolution of powers including the fiscal powers to the PRIs is the most significant aspect that reflected through the 73<sup>rd</sup> constitution amendment act. It was suggested that the functions of 29 subjects under the Eleventh Schedule of the Indian Constitution should be devolved to the PRIs for making them as institutions of self-government. The act has also provisioned for the constitution of the State Finance Commissions (SFCs) in the states to examine the fiscal scenario of the local governments and suggest suitable recommendations to the State on this subject.

Box.1 presents the summary of policies of Fiscal Devolution to PRIs in India during different period of time starting from immediate independence period to the post-73<sup>rd</sup> amendment period.

**Box-1: Milestones in the Devolution of Finances to PRIs in India in post-independence period**

1949: The constituent assembly adopted the Governance Framework of the Government of India Act, 1935 which resulted a centralised system of governance in India. The organisation of Panchayat was mentioned in Article 40 of the Indian Constitution.

1957: Balawantary Meheta Commission recommended Panchayat structure at district, block and village levels. The Commission also suggested certain specific sources of tax revenue such as land revenue and cess on land revenue, professional tax, share of motor vehicle tax, etc. for the PRIs.

1963: K.Santhanam Committee recommended limited revenue raising powers to the PRIs to raise revenue setting up of State Panchayati Raj Finance Corporations.

1978: Ashok Mehta Committee recommended that "apart from the budgetary devolution from the State Government, the Panchayati Raj Institutions also should mobilise enough resources of their own. The thesis "no taxation, only representation" should be discouraged. A select list of taxation powers should be given to the PRIs.

1985: G.V.K Rao Committee recommended that "district level planning and budget preparation should be given priority. It was also suggested for inclusion of all available resources in the district plan and budget.

1986: L.M.Singvi Committee recommended that local-selfgovernment should be constitutionally enshrined, and the Gram Sabha (the village assembly) should be the base of decentralised democracy.

1993: The 73<sup>rd</sup> Amendment to the Indian Constitution-panchayats at district, block and village levels was created through Constitution. Article 243-G, 243-H and 243-I of the act explicitly state the finances of the PRIs such as devolution of powers and functions, powers to levy and collect taxes and constitution of the State Finance Commissions.

2006: Report of the Working Group on Democratic Decentralisation and PRIs, constituted by the Ministry of Panchayati Raj, Government of India, suggested that "recommendations of the Central and State Finance Commissions with regard to tax devolution to PRIs should be given priority. Further, SFCs should follow a normative approach in the assessment of revenues and expenditure of PRIs.

2009: The Thirteenth Finance Commission recommended share of panchayats in the Union Revenue Divisible Pool keeping in mind the provision of Article 280 (bb) of the Indian Constitution.

2014: The Fourteenth Finance Commission has worked out the total size of the grant to be Rs.2,87,436 crore for the award period of 2015-20. Of this, the grant recommended to Panchayats is Rs.2,00,292.20 crore.

**4.2.2. Current Trends of Fiscal Devolution:** The devolution of powers such as administrative and fiscal to the PRIs is the most significant aspect of democratic decentralisation which was highlighted in the 73<sup>rd</sup> Constitution Amendment Act. A significant component of the Act is vesting fiscal powers to the PRIs. Further, as per the provision of the Act, the Legislature of a state may by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government. But the current trends of fiscal devolution to the PRIs have provided a dismal scenario because of the failure of the states on this issue. The problem of fiscal decentralisation presents two broad scenarios: policy failure or failure of the state governments and failure of the PRIs to utilize resources available at their disposal for optimizing own revenues. State specific experiences on the issues of fiscal devolution show that states such as Kerala, Maharashtra, Karnataka, Madhya Pradesh, Tamil Nadu, West Bengal, Sikkim, Chhattisgarh, Gujarat, Haryana and Himachal Pradesh are quite ahead in the matters of fiscal transfers to the PRIs (MoPR, 2012). However, disparity among the funds, functions and functionaries are quite high except few states like Kerala, Karnataka and Maharashtra. Further, the issues of finance of the PRIs remain in the nascent stage.

Despite the enactment of the 73<sup>rd</sup> amendment act and institutionalisation of the SFCs, poor finances have restricted the functions of the PRIs in many states including in the state of Chhattisgarh. Further, though the State Government of various states has devolved taxation powers to the PRIs, in particular GPs but in actual practice these institutions have not able to utilise these powers fully because of various reasons. For example in the case of Chhattisgarh, the report of Second SFC (2012) has highlighted that the annual average revenue from property tax on houses is Rs. 1712.00 per GP. The revenue from this important source accounted for as low as 0.16% of the total receipts of a GP in the State during the five-year period of 2006-07 to 2010-11.

The Ministry of Panchayati Raj with the collaboration of Tata Institute of Social Sciences (TISS) developed Report on Devolution Index for the year 2015-16. The report "Where Local Democracy and Devolution in India is heading towards?" is the outcome of the assessment of operational core of decentralisation and support system for devolution conducted by TISS in 53 districts of 26 States and six Union Territories. The Index of Devolution in Practice allows us to analyse the devolution happening in the field and validate the data obtained from the state governments across the country. The indicators chosen also reflected on actual control of Panchayats over transferred institutions, functions and functionaries, financial autonomy and utilization of development funds and the status of infrastructure and administrative system in place.

Table 4.1 provides the ranking of the states by the index of development in practice. Kerala stands out as the top performing state on this index followed by Sikkim, Karnataka,

and Maharashtra in that order. The important states like Uttar Pradesh, Bihar, Andhra Pradesh, Punjab is found not doing well with poor rankings.

**Table 4.1. Ranking of States in the component and aggregate indices of Devolution in Practice**

State	Functions	Functionaries	Finances	IGT	Aggregate DPR
Kerala	1	1	1	1	1
Sikkim	3	2	13	3	2
Karnataka	2	6	11	6	3
Maharashtra	11	4	2	8	4
Himachal Pradesh	14	9	3	4	5
Assam	10	3	10	13	6
Tripura	9	5	4	12	7
West Bengal	5	22	21	2	8
Madhya Pradesh	6	18	6	7	9
Uttarakhand	4	8	17	16	10
Gujarat	8	14	15	15	11
Odisha	19	12	12	9	12
<b>Chhattisgarh</b>	<b>7</b>	<b>21</b>	<b>18</b>	<b>10</b>	<b>13</b>
Rajasthan	21	7	23	11	14
Tamil Nadu	20	17	5	14	15
Haryana	18	25	9	5	16
Telangana	13	16	16	18	17
Uttar Pradesh	17	23	8	17	18
Punjab	16	13	20	19	19
Andhra Pradesh	12	19	14	20	20
Jharkhand	23	15	22	22	21
Bihar	22	24	19	21	22
Manipur	15	11	25	23	23
Arunachal Pradesh	24	10	7	24	24
Jammu and Kashmir	24	20	24	25	25

Source: Devolution Report, 2015-16, TISS and MoPR, 2015.

### **4.3. Rural Decentralised Governance in Chhattisgarh**

**4.3.1. Profile of PRIs in the State:** The PRIs of the state have taken many initiatives of providing basic services to the people of the rural areas. Chhattisgarh is predominately a rural state with 76.76% of its population live in the villages. The state has 10,971 GPs, 146 JPs and 27 ZPs in the State. 19 ZPs are part of the scheduled areas and are part of the implementation of the PESA Act. Of the total GPs in the state, 4,506 are located in the scheduled areas and are part of the implementation of the PESA Act. This Act also extends to 85 JPs out of total 146 JPs in the state. It is estimated that 65 percent of the total area of the state i.e. 88,000 sq.km comes under the implementation of the PESA Act.

**4.3.2. Legal Provisions:** The state has adopted three-tier Panchayati Raj System - the ZPs at the district level, the JPs at the intermediary level and the GPs at the village level. The legal provisions, institutional arrangements and functioning of PRIs in the state have started since the formation of the state of Chhattisgarh. However, after formation, the new state adopted the Panchayat Raj Act of 1993 and also the State Finance Commission Act of 1994 of Madhya Pradesh when it formed in 2000. The Panchayati Raj Legislation applicable in Madhya Pradesh became applicable to the state of Chhattisgarh. But in 2004, the state introduced the Chhattisgarh Panchayati Raj (Amendment) Adhiniyam (Act), 2004, which is now applicable to all the three tiers of PRIs in the state.

### **4.4. Functions of the PRIs and Status of Functional Devolution**

The Chhattisgarh Panchayat Raj Act has identified functional areas for the PRIs in the state and has made provisions for transfer of these functions to them. The functions of the PRIs in the state can be broadly divided into three parts such as regulatory, maintenance and development functions. Section 49, 50 and 52 of the Act (*Adhiniyam*) enumerates the functions to be carried out by the PRIs (GPs, JPs and ZPs respectively) within the finances available at their disposal.

The GPs as per section 49 of the Act have been entrusted with the maintenance of village level infrastructure-school buildings, Anganwadis etc. The GPs also supervise the village level implementation of various schemes such as Sarva Shiksha Abhiyan (SSA), Mid-Day Meal, Old Age Pension, Pension for the Disabled, Public Distribution and other social security schemes.

The JPs under section 50 of the Act have been entrusted with carrying out various activities related with Agriculture, Social Forestry, Animal Husbandry, Fisheries, Public health, Basic and Adult Education, Communication, Cottage Industries, Women and Child Development, Social Welfare, Family Welfare and Fairs and Festivals.

Under section 52, the functions of the ZPs include consolidation of Panchayat plans and preparation of plans for economic development and social justice for the districts, coordination and monitoring the activities of the JPs and GPs and implementing schemes allocated by the Central Government and the State Government. The ZPs have also power of supervision of functions of various line departments located within their jurisdiction.

It was observed through the field study conducted in various ZPs, JPs and GPs of the state that the process of functional devolution in the state has achieved many positive results. Though powers have been devolved to the PRIs through notifications, but activity mapping process has not been done seriously. Further, in some cases, there is a coordination problem among various tiers of the PRIs. In this case, appropriate mechanism should be devised to minimise the coordination gap.

#### **4.5. The Status of Panchayats Extension to Scheduled Areas (PESA) Act**

Chhattisgarh became a new state in 2000 carved out from Madhya Pradesh. The Panchayat Raj legislation applicable in Madhya Pradesh became applicable to the state of Chhattisgarh. In order to make special provisions for extension of Panchayats in Scheduled Areas, a new chapter was added to Chhattisgarh Panchayati Raj Adhiniyam, 1993. 65% of the total area of the state i.e. 88,000 sq.km comes under the implementation of the PESA Act. This Act extends to 13 districts fully and 5 districts partially. This comprises 85 blocks out of total 146 blocks in the state. However, despite the implementation of the Act in the state and its extension to the Scheduled Areas, many lacunae were observed in the manner of implementation of this Act. Further various parallel provisions exist in the state subject laws governing the matter of PESA, which has hampered the spirit of implementation of this Act. The state has not framed the State PESA Rules after nearly two decades of its formation as a separate state.

#### **4.6. Functionaries of PRIs and Status of Devolution**

The state government has also taken appropriate steps of transfer of functionaries to the PRIs. The state government has transferred various developmental functions, including specific programmes and schemes pertaining to fifteen departments to the PRIs. These Departments are 1. School Education, 2. Schedule Castes and Schedule Tribes Development, 3. Women and Child Development, 4. Mineral Resource, 5. Village Industries, 6. Agriculture, 7. Animal Husbandry, 8. Fisheries, 9. Public Health Engineering, 10. Food, Civil Supply and Consumer Protection, 11. Sports and Youth Welfare, 12. Energy, 13. Water Resource, 14. Rural Road Development Agency (P&RD) and 15. Labour.

The state government has also devolved powers to PRIs at the appropriate level to recruit teachers, decide case of undisputed mutations, correction of land records and partition, recruitment and appointment of medical/para medical staff, identify the social security beneficiaries and provide them assistance. According to the Devolution Report prepared by the Ministry of Panchayati Raj, Government of India in 2015-16, the rank of Chhattisgarh is 10 in the country. However, with regard to improving support system that facilitates effective devolution, the state ranked 4 which show the continuous progress of the state for devolving more powers and functions to the PRIs in the state.

#### **4.7. Activity Mapping**

The State Government has taken various initiatives to actualise the functional devolution process through carrying out activity mapping process in the state. In this connection, the activity mapping process was started in the state when it was part of Madhya Pradesh. During this period, two Government Orders issued on 20<sup>th</sup> August 1994 and on 20<sup>th</sup> August 1998 through a Cabinet Resolution (when Chhattisgarh was a part of Madhya Pradesh). The 20<sup>th</sup> August 1998 order, which has been adopted in Chhattisgarh not only states the actual functions devolved, but also makes a clear-cut division between the Panchayat sector and the State Sector. It also enunciates the general principles covering the financial, administrative, implementation and staff arrangements.

After creation of Chhattisgarh as a separate state, the state government has taken various initiatives for undertaking a comprehensive activity mapping that aims at spelling out activities related to each function of the PRIs in a more clear-cut manner as compared to 1998 order. In 2006 and 2007, as many as 15 line departments issued orders and notifications related to Activity Mapping and devolution of functions to the PRIs in the state. Activity mapping has been prepared for 27 of 29 subjects of the PRIs as mentioned under 11<sup>th</sup> schedule of the Indian Constitution and the State Panchayati Raj Act, 1993. The process of activity mapping has been completed since February, 2006 and necessary government orders are issued to operationalise the activity mapping in the state.

However, it was observed through this study that in spite of the preparation of Activity Mapping framework and progress on 27 subjects, the necessary executive orders to operationalise Activity Mapping have not been issued so far. Further, though the Activity Mapping Process has been completed in the state in 2006 but in many cases, the functionaries are not aware about this process. Table 4.2 presents the status of Activity Mapping in the state.

Table 4.2: Status of Activity Mapping in Chhattisgarh

Sl. No	Matter listed in schedule XI of Indian Constitution	Activities/Schemes			Dates of Transfer (issue of notification/order)
		ZP	JP	GP	
1	Agriculture, including agricultural extension	√	√	√	Chief Secretary's notification d.t 8.8.94 & 3.8.98
2	Land improvement, implementation of land reform, land consolidation and soil conservation	x	x	√	do
3	Minor irrigation water management and watershed development	√	√	√	do
4	Animal husbandry, dairying and poultry	√	√	√	do
5	Fisheries	√	√	√	do
6	Social Forestry and Farm Forestry	√	√	√	do
7	Minor Forest Produce	x	x	√	do
8	Small Scale industries, including food processing industries	x	x	√	do
9	Khadi, village and cottage industries	√	√	√	8.8.94 & 3.8.98
10	Rural Housing	√	√	√	8.8.94
11	Drinking water	√	√	√	8.8.94 & 3.8.98
12	Fuel and fodder	x	x	x	-
13	Roads, culverts, bridges, ferries, waterways and other means of communication	x	√	√	25.1.94
14	Rural Electrification including Distribution of Electricity	x	x	√	3.8.98
15	Non-conventional energy sources	√	√	√	8.8.94 & 3.8.98
16	Poverty Alleviation programmes	√	√	√	25.1.94 & 3.8.98
17	Education, including primary and secondary education	√	√	√	8.8.94 & 3.8.98
18	Technical training and vocational education	x	x	x	-
19	Adult and non-formal education	√	√	√	25.1.94
20	Libraries	√	√	√	25.1.94 & 30.10.96
21	Cultural activities	√	√	√	8.8.94 & 3.8.98
22	Markets and fairs	√	√	√	25.1.94 & 3.8.98
23	Health and sanitation including Primary Health Centres and Dispensaries	√	√	√	25.1.94, 8.8.94 & 3.8.98
24	Family welfare	√	√	√	8.8.94 & 3.8.98
25	Women and Child Development	√	√	√	25.1.94, 8.8.94 & 3.8.98
26	Social welfare including welfare of the handicapped and mentally retarded	√	√	√	8.8.94, 28.10.96 & 3.8.98
27	Welfare of weaker sections and in particular SC and STs	√	√	√	25.1.94 & 8.8.94
28	Public Distribution system	x	x	√	3.8.98
29	Maintenance of Community Assets	x	x	√	25.1.94

Source: Department of PR & RD, Government of Chhattisgarh 2016.

#### 4.8. Functional Committees of the PRIs in the State

The Chhattisgarh Panchayati Raj Act, 1994 and amendments made during various periods has created enough space for the formation of functional committees at the various levels of the PRIs in the state. The present scenario with regard to the Functional Committees reveals that at the ZPs and the JPs level, there are five Functional Committees (as mentioned in Table 4.3) which have become a key part of the functioning of these institutions in the state. However, it was observed that in many cases the General Administration Committee (GAC) (*Samanya Prasasan Samiti*) the ZPs and the JPs is playing a key role in comparison with other Committees.

Table 4.3: Standing Committees of Zila/Janpad Panchayats in Chhattisgarh

Standing Committees & Functions		
Sl.No.	Name of Committees	Functions
1	General Administration Committee	Responsible for all matters related with ZP administration, budget, accounts, taxation, and other financial matters of the ZPs.
2	Agriculture Committee	Responsible for agriculture, animal husbandry, power, reclamation (including soil conservation and contour binding), fisheries, seed distribution and other matters related with agriculture and live-stock.
3	Education Committee	Responsible for education including adult education, social welfare of the disabled and destitute, women and child welfare, and relief of distress caused by floods, draught, earthquakes, health and sanitation.
4	Communication and Works Committee	Responsible for communication, minor irrigation, rural housing, rural water supply, drainage and other public works.
5	Cooperation and Industries Committee	Responsible for cooperation, thrift and small savings, industries, markets and statistics.

Source: Department of PR& RD, Government of Chhattisgarh, 2017.

It was also further revealed that at the GP level, there are three Standing Committees (as mentioned in Table 4.4) which have become a key part of the functioning of the GPs in the state. Among them, the GAC has emerged as a key Committee of the GPs in the state.

Table 4.4: Standing Committees of Gram Panchayats in Chhattisgarh

Sl.	Name of Committees	Functions
1	General Administration Committee	The General Administration Committee is responsible for monitoring and supervising construction works in GP area, monitoring the activities like revenue of GP, budget of the GP, accounts and other finance related matters. It also monitors land development programmes in GP. The Committee is headed by Sarpanch and some ward members (4 persons) are part of the committee.
2	Construction and Development Committee	This Committee is responsible for preparation of annual plan of GP and monitor the implementation of various development works such as electrification, communication, public health, development of small and cottage industries and protection and management of forests. Sarpanch is the head of the committee and four ward members and few technical persons (Engineers) are members of the committee.
3	Education , Health and Social Welfare Committee	This committee is responsible for monitoring of schools, Anganwadies, and primary health centres. This Committee is also responsible for monitoring development programmes for the weaker sections such as SCs, STs and Women in the GP. Sarpanch is the head of the Committee and 4 ward members are members of the Committee.

Source: Department of PR and RD, Government of Chhattisgarh, 2017.

#### 4.9. Summary

This chapter summarises that in the state, the function of the PRIs, particularly related with maintenance and development functions have been enhanced over the period of time. The PRIs in the state in the recent period have been managing a wide range of development activities. But devolution of functions to these institutions has not fully operationalised. This scenario has created functional deficiencies and overlapping in functions. Further, though the Standing Committees of the PRIs have been institutionalised in the state, but in actual case the service of these Committees have not been utilised fully. The recommendations of these Committees have not been considered in some cases and no fruitful action has been taken on the recommendations of these Committees.

## CHAPTER - 5

### Finances of the PRIs in Chhattisgarh State

#### 5.1. Introduction

Finances is the key of making PRIs effective, accountable and transparent. In the case of Chhattisgarh, the revenue sources are statutorily assigned to the Panchayats under the Chhattisgarh Panchayati Raj Adhiniyam, 1993 (the Panchayat Act) assuring certain amount of autonomous revenues to the Panchayats. Section 77 of the Panchayat Act empowers GPs and JPs to impose both tax and non-tax levies with a further division of obligatory and optional levies under each category. The GPs have been vested power of levying various obligatory taxes such as property tax, lighting tax, profession tax and tax on local markets. Similarly, the JPs have power of levying taxes such as entertainment tax and development tax on agriculture land. In the non-taxes, the JPs have power to levy fees for any license for use and occupation of land or other property. With regard to own revenues of the ZPs of the state, they have nominal power with regard to levying and collecting taxes from various sources. Only they have the power of increase the rate of cess on land revenue and can distribute the same among the JPs and GPs of their jurisdiction. In this chapter, an attempt has been made to shed light on the finances of the ZPs, JPs and the GPs of the state while focusing on their Own Sources Revenues (OSR) on the basis of field data.

#### 5.2. Finances of the PRIs in the State

The finances of the PRIs are mainly based on (i) Own Revenues of the PRIs, (ii) Transfer from the Central and State Governments and (iii) Grant-in-Aids provided by the Government to these bodies. Table 5.1 gives the details of taxation powers devolved to all the three tiers of PRIs in the State.

The transfer of resources to the PRIs, as has been mentioned in the tables 5.2 and 5.3, can be categorized into State's own-tax revenue (through assigned taxes), and grants as recommended by the SFC, grants-in-aid as recommended by the Central Finance Commission and grants under the Central and State Government schemes (Tables 5.2 and 5.3). The State taxes, the proceeds of which are assigned to the local bodies (assigned revenue), in respect of PRIs, are land revenue, royalty on minor minerals and additional stamp duty and entertainment tax. The second SFC, in its report, has recommended devolution of 8% of the net State's own tax revenue (Rs. 5,793.50 crore) to the local bodies of which 6.15% to PRIs (Rs. 4,453.75 crore) on the basis of population. The second SFC has also recommended some grants-in-aid.

Table 5.1: Taxation Power of PRIs in Chhattisgarh State

Level of Panchayat	Obligatory Levies		Optional Levies	
	Tax	Non-tax	Tax	Non-tax
1. GPs (Section 77 and Schedules-I & II)	Property tax on Lands or buildings or both, Tax on Private Latrines, Light tax, Tax on persons exercising a profession or carrying on any trade or calling	Market fees on persons exporting goods for sale in the Panchayat area, Fees on Registration of Cattle sold within the Panchayat area	Tax on building not covered by the property tax, Tax on Animals. Tax on non - motorized vehicles, Water Rate, Tax on persons carrying on the profession of purchaser, agent, commission agent, weigh man or a measure in the Panchayat area, Temporary tax for special works of public utility, Tax for the construction or maintenance of public latrines, General scavenging tax for removal and disposal of refuse	Fees for the use of Sarais, Dharmasalas, Rest Houses, Slaughter house sanden camping grounds, Drainage fees where system of drainage is introduced by the panchayats, Fees on entry of vehicles into the Panchayat area, Fees for bullock-cart stand and tonga stand, Fees for temporary structure or any projection over public place or temporary occupation there of, Fees for grazing cattle over Panchayat, Panchayat grazing grounds.
2. JPs (Section 77 and Schedule-I)	Tax on Theatres or theatrical performances and other public entertainments, Development tax on agricultural land	Nil	Nil	Fees for licenses or permissions granted fees for use occupation of lands or other properties vested in or mentioned by the JP
3. Zilla Panchayat (Section 74 (2))	Nil	Nil	Increase in the Cess on land from Rs.0.50 per rupee upto Rs.10.	Nil

Source: Second SFC, Government of Chhattisgarh, 2011

Table 5.2: Transfers from State Government (Including SFC devolution)

Transfers from State government	GPs	JPs	ZPs
Assigned Taxes	Net proceeds of land revenue, Cess on Land Revenue; Royalty on minor minerals	Additional Duty on Transfers of Property; Royalty on minor minerals; Entertainment Tax	
State grants & State Finance Commission devolution	<ol style="list-style-type: none"> <li>1. Gram Panchayat on ko Mulbhut Karyon hetu Anudan (<i>Basic Grants to GPs</i>)</li> <li>2. Pradhanmantri Gramodyog Yojana</li> <li>3. Gaun Khanij Mad (<b>Royalty from Minor Minerals</b>)</li> <li>4. Atal Samarasta Bhawan (<b>Multi-Purpose GP Building</b>)</li> <li>5. Shradhanjali Yojana</li> <li>6. Mukhyamantri Samagra Gramin Vikas Yojana</li> <li>7. Gaon Ki Galiyon Ka Aantrik Vidyutikaran (<i>Electrification of Rural Hamlets</i>)</li> <li>8. Rastriya Aajeevika Pariyojana (NRLP)</li> <li>9. C.G. Rajya Kshetriya Gramin Vikas Pradhikaran (<i>Area Development Authority</i>)</li> <li>10. Mini Stadium</li> <li>11. Mukhyamantri Panchayat Sashaktikaran (<i>Strengthening of GPs</i>)</li> <li>12. Sansad Aadarsh Gram Yojana</li> <li>13. Vidhyak Aadarsh Gram Yojana</li> <li>14. Panchayati Raj Sansathaokakshamta Vikas (<i>Improving Capacity of PRIs/ Capacity Building Programme</i>)</li> <li>15. Hamar Chhattisgarh Yojna (<i>Our Chhattisgarh Programme</i>)</li> </ol>	<ol style="list-style-type: none"> <li>1. Manoranjan Kar Se Prapta Rashi se Panchayat on ko Anudan (<i>Share from Entertainment Tax</i>)</li> <li>2. Mudrank Shulk (Registration Fees)</li> <li>3. Mukhyamantri Janpad Sashaktikaran Yojana (MJSY)</li> <li>4. Janpad Panchayat Vikas Nidhi (<i>JP Development Fund</i>)</li> <li>5. Vivekanand Yuva Protsahan Yojana</li> <li>6. Janpad and Gram Panchayat Padadhikariyon Ka Mandeya Evam Suvidhayen (<i>Honorarium and others facilities for PRI Members</i>)</li> <li>7. Panchayati Raj Sansathaokakshamta Vikas (<i>Improving Capacity of PRIs/ Capacity Building Programme</i>)</li> <li>8. Mukhyamantri Panchayat Sashaktikaran (<i>Strengthening of JPs</i>)</li> </ol>	<ol style="list-style-type: none"> <li>1. Panchayat Padadhikariyonka Sammelan (<i>PRIs Members Conference/ Conclave</i>)</li> <li>2. Zila Panchayat Vikas Nidhi (<i>ZP Development Fund</i>)</li> <li>3. Zila Panchayat Samanya Prayojan (<i>Basic Grants to ZPs</i>)</li> <li>4. Panchayat Padadhikariyon Ka Prashiksha (<i>Capacity Building of PRI Members</i>)</li> <li>5. Sachiviya Vyavastha (<i>Secretarial Provision</i>)</li> <li>6. Zila Panchayat Padadhikariyon Ka Mandeya (<i>Honorarium/ Allowance for the ZP Members</i>)</li> <li>7. Panchayat Sachivon Ka Vetan (<i>Salary of Secretary</i>)</li> <li>8. Mukhyamantri Panchayat Sashaktikaran (<i>Strengthening of PRIs/ ZPs</i>)</li> <li>9. Panchayati Raj Sansathaokakshamta Vikas (<i>Improving Capacity of PRIs/ Capacity Building Programme ZPs</i>)</li> </ol>

Source: P&RD Department, Government of Chhattisgarh, 2017.

Table 5.3: Transfers from Central Government

Transfers from Central Government	GPs	JPs	ZPs
Finance Commission Grants	14 <sup>th</sup> Finance Commission	-	-
Centrally Assisted Schemes	Swachh Bharat Mission (SBM)	SBM	SBM
	PMAY (Rural)	-	DRDA Administration
	NRLM	-	Shyama Prasad Mukharji Rurban Mission
	MGNREGA	-	-
	PMGSY	-	-
	Rashtriya Gram Swaraj Abhiyan		

Source: P&RD Department, Government of Chhattisgarh, 2017.

### 5.3. Own Revenues of the PRIs in the State

**5.3.1. Own Revenues of the ZPs:** In the case of ZPs, it is observed that they have nominal powers with regard to levying and collecting taxes from various sources. Only they have power to increase the rate of cess on land revenue and can distribute the same among the JPs and GPs of their jurisdiction. With regard to non-tax revenues, these bodies have vested power to raise revenue from water bodies (tanks), leasing out of fish ponds (tanks) and fee from property. However, data collected for this study shows that the ZPPs have not collected any non-tax revenues during the year from 2011-12 to 2015-16.

**5.3.2. Own Revenues of the JPs:** With regard to own revenues of the JPs, Table 5.4 shows the internal resources - demand made, collected and the balance at JP level in the state.

Table 5.4: Total Internal Resources of Janpad Panchayats 2011-16 (Rs. in lakh)

Year	Total Internal resources of JPs 2011-16 (Tax + Non Tax)			Collection as % of demand	Total Internal resources per JP 2011-16		
	Demand	Collection	Balance		Demand	Collection	Balance
2011-12	30.43	17.07	13.36	56.10	0.21	0.12	0.09
2012-13	37.58	19.28	18.30	51.30	0.26	0.13	0.13
2013-14	42.62	25.29	17.33	59.34	0.29	0.17	0.12
2014-15	115.97	95.85	20.12	82.65	0.79	0.66	0.13
2015-16	52.36	35.31	17.05	67.44	0.36	0.24	0.12
Avg 2011-16	55.79	38.56	17.23	69.11	0.38	0.26	0.12

Source: Data provided by III SFC, Chhattisgarh

Total Internal Resources per JP ranged between Rs.12,000 in 2011-12 to Rs. 24,000 in 2015-16. The year 2014-15 seems to be an exceptional both in demand as well as in collection. The proportion of collection as % of demand ranged between 51 per cent in 2012-13 to 67 per cent in 2015-16, barring 2014-15.

**5.3.3. Own Revenues of the GPs:** Before analysing own revenues of GPs, it is to be remembered that Chhattisgarh is mainly a rural state with 58.22% of the area under Schedule V areas and 46.29% of the total panchayats in Schedule areas come under provisions of the PESA Act, 1996. There are 9 Left Wing Extremism (LWE) affected districts of which 8 are fully PESA districts and the remaining one is partially covered by PESA. For these reasons, the potential of GPs for raising internal resources is limited.

Through this study, it was attempted to collect and analyse the data of own revenues of all GPs of the state for the period 2014-15 to 2016-17. Table 5.5 presents the status of own revenues of the GPs (10,971 GPs) in the state from the period of 2014-15 to 2016-17. The composition of own revenues of the GPs at aggregate level shows that obligatory tax revenue constitutes a major share (44.68%) followed by Other Fees (non-tax revenue) (36.15%) and Optional Taxes (19.17%).

**Table 5.5: Composition of Own Revenues of the GPs (in Rs)**

Year	Obligatory Tax	Optional Tax	Other Fees	Total
2014-15	173447839 (44.21)	74708032 (19.04)	144191249 (36.75)	392347120 (100.00)
2015-16	248896269 (41.73)	121606316 (20.39)	225893709 (37.88)	596396294 (100.00)
2016-17	350807759 (47.31)	135279757 (18.24)	255486246 (34.45)	741573762 (100.00)
Average of 3 Years	257717289 (44.68)	110531368 (19.17)	208523735 (36.15)	576772392 (100.00)
Average Revenue per GP	23491	10075	19007	52572

*Note:* Figure shows in the brackets are percentage of their respective counts

*Source:* Data provided by III SFC, Chhattisgarh

The breakup of annual average own revenues of GPs (Table 5.6) shows that obligatory tax revenue per GP is Rs. 23490.77 followed by other Fees (Rs. 19006.81) and Optional Taxes (Rs.10074.87). The major sources of Other Fees include (i) Market Fees, (ii) Fees on Registration of Cattle sold within the GP area and (iii) Fees from various buildings, slaughter houses etc.

Table 5.6: Category-wise Own Revenue collections per GP (3 Year Avg. 2014-17)  
(Rs in Lakhs)

All Districts	3 Year Avg2014-17	Total no. of GPs	Collections per GP
Obligatory Tax	2577.17	10971	23490.77
Optional Tax	1105.31	10971	10074.87
Other Fees	2085.23	10971	19006.81
<b>Total collections</b>	<b>5767.72</b>	<b>10971</b>	<b>52572.45</b>

Source: Director, Department of Panchayatiraj, Chhattisgarh.

Table 5.7: Own Revenue per GP Avg. 2014-17: Inter-district comparison

Sl. No.	District	Own Revenue per GP avg 2014-17
1	Dantewada*#	7094
2	Bijapur*#	10553
3	Narayanpur*#	11163
4	Balarampur*	14082
5	Kabirdham	16899
6	Surajpur*	20240
7	Kondagaon*	20828
8	Korba*	21276
9	Sarguja*#	21967
10	Rayagad**	22726
11	Bemetara	23958
12	JangirChampa	24217
13	Sukma*	25456
14	Jashpur*#	37368
15	Mungeli	38346
16	Bastar*#	39248
17	Mahasamund	44439
18	Koriya*#	46638
19	Gariyabandh**	57478
20	Baloda Bazar	58560
21	Bilaspur**	66238
22	Kanker*#	87104
23	Durg	89704
24	Dhamtari**	113316
25	Rajnandgaon**#	118456
26	Raipur	149399
27	Balood**	610238

Note: \* fully covered by PESA; \*\* partially covered by PESA; # LW (left wing extremism)

Source: P&RD Department, Government of Chhattisgarh, 2017.

The inter-district variation in the annual average own revenue per GP (2014-17) is quite wide ranging between Dantewada (Rs. 19566) and Balod (Rs. 711336). The annual average own revenue per GP remained less than Rs.1 lakh in the GPs of 15 districts, ranged between Rs.1 and 1.5 lakh in 4 districts and more than Rs.1.5 lakh in 8 districts. In 5 districts the annual average own revenue per GP remained less than average of 'all districts' (Table 5.7).

**5.3.4. Analysis of Own Revenues of PRIs:** Delving into the Own Revenues of each tier of the PRIs in the state has indicated that (i) the Own Revenues of the Zila Parishads is quite meagre and it is because failure of these bodies to utilise various sources to tap revenue, (ii) the Own Revenues of the JPs has been increased gradually and it shows a positive trend in the financial scenario of the JPs and (iii) the Own Revenues of the GPs increased gradually over the years in the case of the state. However, district wise status of Own Revenues of the GPs indicates that in the case of some districts (in particular districts located in tribal areas and covered under the PESA Act) it is quite low.

#### 5.4. Assigned and Transfer Revenues of the PRIs

**5.4.1. Share of PRIs from State's Own Tax Revenue:** Besides the own revenue, the sources of funds of PRIs also include the shares in the State's own-tax revenue and grants through the Central and State Government schemes. The scope of the revenue resources expanded with the initiation of Tenth Finance Commission in recommending central grants to local bodies.

Table 5.8 shows the status of Revenue Assigned to PRIs during the period of 2014-15 to 2017-18. It shows that the PRIs have received Rs.1156.00 Crores from the Assigned Revenue Sources from the State Government.

Table 5.8: Revenue Assigned to PRIs in the State (Rs. In Crores)

Revenue Assigned to PRIs in the State					
Subjects (Taxes and Others)	2014-15	2015-16	2016-17	2017-18	Total
Expenditure from Infrastructure Development Fund	60.00	125.40	55.29	125.40	366.09
Grant from Royalty of Minor Minerals	149.00	0.00	235.35	226.42	610.77
Grant from Stamp and Registration fee	45.00	0.00	60.00	65.00	170.00
Grants from Entertainment Tax	3.00	0.00	3.30	3.50	9.80
Total	257.00	125.40	353.94	420.32	1156.00

Source: Department of Panchayat and Rural Development, Government of Chhattisgarh, 2017

**5.4.2. Transfer to PRIs from State Government:** The transfer of resources to the PRIs can be categorized into assigned taxes (through State's own-tax revenue), and grants as recommended by the State Finance Commission (SFC), Grants-in-aid as recommended by the Central Finance Commission and grants under the Central and State Govt. schemes. Table-5.9. presents the nature of transfer of resources to PRIs including SFC grants.

**Table 5.9: Types of Revenues Transfers from state government to PRIs  
(Including SFC devolution)**

Transfers from State government	GPs	JPs	ZPs
Assigned Taxes	Net proceeds of land revenue, Cess on Land Revenue; Royalty on minor minerals	Additional Duty on Transfers of Property; Royalty on minor minerals; Entertainment Tax	
State grants & State Finance Commission devolution	<ol style="list-style-type: none"> <li>1. Gram Panchayat onko Mulbhut Karyonhetu Anudan (<i>Basic Grants to GPs</i>)</li> <li>2. Pradhanmantri Gramodyog Yojana</li> <li>3. Gaun Khanij Mad (Royalty from Minor Minerals)</li> <li>4. Atal Samarasta Bhawan (Multi-Purpose GP Building)</li> <li>5. Shradhanjali Yojana</li> <li>6. Mukhyamantri Samagra GraminVikas Yojana</li> <li>7. Gaon Ki Galiyon Ka Aantrik Vidyutikaran (<i>Electrification of Rural Hamlet Villages</i>)</li> <li>8. Rastriya Aajeevika Pariyojana (NRLP)</li> <li>9. C.G. Rajya Kshetriya Gramin Vikas Pradhikaran (<i>Chhattisgarh State Area Development Authority</i>)</li> </ol>	<ol style="list-style-type: none"> <li>1. Manoranjan Kar Se Prapta Rashise Panchayat onko Anudan (<i>Grants-in-Aid from Entertainment Tax</i>)</li> <li>2. Mudrank Shulk (<i>Transfer of Registration Fees</i>)</li> <li>3. Mukhyamantri Janpad Sashaktikaran Yojana (MJSY)</li> <li>4. Janpad Panchayat Vikas Nidhi (<i>JP Development Fund</i>)</li> <li>5. Vivekanand Yuva Protsahan Yojana</li> <li>6. Janpad and Gram Panchayat Padadhikariyon Ka Mandeya Evam Suvidhayen (<i>Honorarium for JP and GP Members</i>)</li> </ol>	<ol style="list-style-type: none"> <li>1. Panchayat padadhikariyonka Sammelan (PRIs Members Conference /Conclave)</li> <li>2. Zila Panchayat Vikas Nidhi (<i>ZP Development Fund</i>)</li> <li>3. Zila Panchayat Samanya Prayojan (<i>Basic Grants to ZPs</i>)</li> <li>4. Panchayat Padadhikariyon Ka Prashikshan (Capacity Building of Functionaries)</li> <li>5. Sachiviya Vyavastha (<i>Secretarial Provision</i>)</li> <li>6. Zila Panchayat Padadhikariyon Ka Mandeya (<i>Honorarium / Allowance for the ZP Members</i>)</li> </ol>

Contd...

Table 5.9: contd...

from State government	GPs	JPs	ZPs
	10. Mini Stadium ( <i>Small Stadium</i> )	7. Panchayati Raj Sansathaokakshamta vikas ( <i>Improving Capacity of PRIs/ Capacity Building Programme</i> )	7. Panchayat SachivonKa Vetan ( <i>Salary of Secretary</i> )
	11. Mukhyamantri Panchayat Sashaktikaran ( <i>Strengthening of GPs</i> )		8. Mukhyamantri Panchayat Sashaktikaran ( <i>Chief Minister ZP Strengthening Programme</i> )
	12. Sansad Aadarsh Gram Yojana	8. Mukhyamantri Panchayat Sashaktikaran ( <i>Strengthening of JPs</i> )	9. Panchayati Raj Sansathaokakshamtavikas ( <i>Improving Capacity of PRIs/Capacity Building Program of ZPs</i> )
	13. Vidhyak Aadarsh Gram Yojana		
	14. Panchayati Raj Sansathaokakshamtavikas ( <i>Improving Capacity of PRIs/Capacity Building Programme</i> )		
	15. Hamar Chhattisgarh Yojna ( <i>Our Chhattisgarh Programme</i> )		

Source: Second State Finance Commission, Chhattisgarh, 2012

**5.4.3. Transfer to PRIs from the Central Government:** The PRIs of the state have also received funds from the Central Government for implementing various central sponsored schemes and programmes. Central government grants include the grants given by the Central Finance Commissions, and the grants given for the implementation of centrally sponsored schemes implemented by the Panchayats.

Table 5.10 show the status of transfer to PRIs of Chhattisgarh under 13<sup>th</sup> FC while table 5.11 shows the transfer to PRIs under 14<sup>th</sup> FC. Table 5.10 shows that gap between allocation and release of funds to the PRIs of the state is quite visible as there are 90 crores less release to the PRIs during the award period and hence state has not gained much due to non-release of the actual allocations.

Table 5.10: Thirteenth Union Finance Commission Grants to the PRIs of Chhattisgarh State (Rs. In Crores)

Component of Grant	2010-11		2011-12		2012-13		2013-14		2014-15		Total allocation	Total release
	Allocation	Release										
General area basic grant	153.67	153.67	196.86	196.86	221.50	221.50	255.53	255.53	279.29	279.29	1106.85	1106.85
Special area basic grant	21.10	21.10	21.10	21.10	21.10	21.10	21.10	21.10	21.10	21.10	105.50	105.50
General area performance grant	0	0	67.16	56.53	151.8	109.82	174.48	244.89	190.30	82.87	583.78	494.12
Special area performance grant	0	0	10.50	0	21.10	10.55	21.10	52.48	21.10	10.02	73.80	73.05
<b>Total</b>	<b>174.77</b>	<b>174.70</b>	<b>295.62</b>	<b>274.50</b>	<b>415.50</b>	<b>362.90</b>	<b>472.20</b>	<b>574.00</b>	<b>511.80</b>	<b>393.20</b>	<b>1869.93</b>	<b>1779.53</b>

Source: Department of Panchayat and Rural Development, Chhattisgarh, 2017

**Table 5.11: Fourteenth Union Finance Commission Grants to the PRIs of Chhattisgarh State (Rs. in Crore)**

Component of Grant	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Basic Grant	566.18	783.98	905.81	1047.86	1415.89	4719.72
Performance Grant	0.0	102.84	116.37	132.16	173.05	524.42
Total	566.18	886.82	1022.18	1180.02	1588.94	5244.14

Source: Department of Panchayat and Rural Development, Chhattisgarh, 2017

### 5.5. Financial Position of PRIs in the State

Table 5.12 presents the status of funds received by PRIs under various heads like (i) Own Revenues (ii) Transfer from State Government and (iii) Transfer from the Central Government from the years 2012-13 to 2016-17.

**Table 5.12: Financial Position of the PRIs and Funds Transfer to them under various Heads (Rs in Crores)**

Sl. No.	Head	2012-13	2013-14	2014-15	2015-16	2016-17	Total
1	Own Revenues	0.19#	0.25#	40.19	59.99	74.15	174.78
2	Transfer from State Government	-	257.00	125.40	353.94	420.32	1156.66
3	Transfer from the Central Government	362.90	574.00	393.20	566.18	886.82	2783.10
4	Total	363.09	831.25	558.79	980.11	1381.29	4114.53

# Only the Own Revenues of the JPs since data for ZPs and GPs not available.

### 5.6. State Finance Commission of Chhattisgarh-Some Observations

**5.6.1. First State Finance Commission:** 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 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.

However, the Second SFC of Madhya Pradesh was constituted but it did not submit its report within a prescribed time. As a result of this, the newly created State of Chhattisgarh continued to provide financial assistance to the local bodies as per the recommendations of the First SFC of Madhya Pradesh. The principal task addressed by SFCs has been getting the share of PRIs in the state revenues.

**5.6.2. Second State Finance Commission:** The Second State Finance Commission (SSFC) of Chhattisgarh was constituted on 23<sup>rd</sup> July, 2011 to give recommendations on specified aspects of Local Bodies-State fiscal relations for the period of 2011-16. However, since it was not possible to analyse all information during the given period. Hence, considering this scenario, the State Government had extended the award period of the commission from 2012 to 2017. The government also extended the award period of 1<sup>st</sup> SFC till 2012.

The Second SFC submitted its report covering all aspects of its ToR during March, 2012. The Commission had given 133 recommendations of which recommendations related to the PRIs are 62. The State Government through its Action Taken Report (ATR) dated July, 2013 accepted 54 recommendations, not accepted 12 recommendations and put 2 recommendations under the category of 'to be considered' which are related with the PRIs (Table-5.13). Table 5.13 highlights the status of recommendations of the Second SFC and their acceptance by the State Government while Table-5.14 highlights recommendations related to PRIs by the Second SFC.

**Table 5.13: Major Recommendations of the Second State Finance Commission**

No. of Recommendations	Related to PRIs	Related to ULBs	Others
133	62	65	6

Source: Department of Finance, Government of Chhattisgarh, 2017

**Table 5.14: Recommendations Related to the PRIs and their Status of Acceptance by the State Government**

No. of Recommendations Related to PRIs	Status of Recommendation Related to PRIs		
	Accepted by the State Government	Not Accepted by the State Government	Under Consideration by the State Government
62	54	12	2

Source: Department of Finance, Government of Chhattisgarh, 2017

With regard to functional devolution and Activity Mapping of the PRIs, it was recommended by the Commission that "A Committee under the chairmanship of the Chief Secretary may be constituted to review the present state of devolution of functions by various departments and prepare a model of functional devolution". The Commission also provided few recommendations for improving the delivery of goods and services by the PRIs in the state. In this connection, it was recommended by the Commission that "Government should identify the basic/core services which are required to be delivered by GPs for improving the overall quality of life of the people i.e. drinking water, sanitation and drainage, lighting of public places, internal roads, and solid waste disposal etc". With regard to functionaries of the PRIs, the Commission recommended that "the GPs urgently

need the functionaries such as an Accountant-cum-Computer operator, one assistant, and one technical person in bigger Panchayats to look after maintenance of services"

The most important aspect of the Second SFC Report was 'how to strengthen finances of the PRIs in the State'. On this issue, it was recommended by the Commission that "at least 8% of the Own Tax Revenue (OTR) of the state should be transferred to the local bodies (PRIs & ULBs) for a period of five years (2017-18 to 2021-22). Of the 8% of the OTR, the Commission recommended 6.15% for the PRIs and 1.85% for the ULBs on the basis of the rural and urban population. For providing financial assistance to the PRIs in PESA area, the Commission recommended that "GPs in PESA area should get an additional Rs. 2 lakh each, out of total funds proposed to be transferred to PRIs".

Apart from the above issues, the Commission had also recommended various other measures such as "strengthening audit and accounts of the PRIs, improving the capacity of the PRI Members and Functionaries and strengthening the functioning of the SFC in the State".

### 5.7. Finances of the PRIs in Five Sampled Districts (ZPs)

The field study conducted by CESS covering 20 GPs from 10 JPs in 5 Districts/ZPs in the state reveals various dimensions with regard to the finances of the PRIs in the study area. With regard to the finances of the ZPs, it reveals that the ZPs Own Sources of Revenues are quite meagre and these institutions are largely depend on transfers from the State and the Central Government. This is also true in the case of the JPs.

Table 5.15: Total Internal resources of sample Gram Panchayat during the period 2011-16  
(Rs. in lakhs)

Year	PESA			NON-PESA		
	Tax	Non tax	Total	Tax	Non tax	Total
2011-12	2.86	3.66	6.52	14.92	3.62	18.54
2012-13	3.17	3.32	6.49	17.02	3.63	20.65
2013-14	3.83	1.75	5.58	16.87	3.85	20.72
2014-15	4.85	1.89	6.74	17.19	4.89	22.08
2015-16	5.38	2.90	8.28	16.51	4.09	20.6
<b>Total</b>	<b>20.09</b>	<b>13.52</b>	<b>33.61</b>	<b>82.51</b>	<b>20.08</b>	<b>102.59</b>

Source: Data provided by S.F.C. Chhattisgarh, 2017.

However, Own Revenues of the 20 sample GPs for the five year period indicate that the GPs located in PESA Areas are not in a position to generate enough resources, both tax and non-tax as compared to non-PESA GPs (Table 5.15).

**5.8. Summary**

This chapter summarises that financial assistance being provided to the PRIs in the form of Assigned Revenue, Revenue Transfer from the state and central government and Gran-in-Aid has helped them in many ways. However flow of funds from line departments to the PRIs have been delayed because of various reasons which have affected the PRIs for effective delivery of services. In some cases like MGNREGA, there observed a routine delay in paying wages to the workers because of delay in transferring funds from the state to the PRIs. Similar scenario was also observed in the case of Swachha Bharat Mission (SBM). Further, the PRIs (in particular the GPs) have faced various internal and external challenges while imposing and implementing taxes and fees which affected their own source of revenues. Such scenario has been disturbed the overall revenue generation capacity of the PRIs in the state.

## CHAPTER - 6

### Emerging Issues from the Study

#### 6.1. Introduction

This chapter summarises the issues emerged from this study and implications of these issues on finances of the PRIs in the state. In this chapter an attempt has been made to draw some lessons and suggest suitable recommendation for strengthening the finances of the PRIs.

#### 6.2. Issues Emerged from the Study

The key issues emerged through this study are associated with three key domains of the PRIs i.e. Funds, Functions and Functionaries. It was revealed that the PRIs in the state have become instrumental to foster the process of development. However, it shows that the issues of finances of these institutions remain in the nascent stage. Despite the enactment of the State Legal Provisions and Institutionalisation of the SFCs, poor finances have restricted the functioning of the PRIs. The own revenue generation of PRIs in many cases encountered various challenges. The gap between demand and collection of taxes has hampered the functioning of the PRIs.

These issues have been summarised in the following section;

**6.2.1. Institutionalisation and Functioning of the PRIs in the State:** The institutional arrangements and functioning of the PRIs in the state reveals that functions related with maintenance and development has enhanced over a period of time which was observed from the field. The PRIs in the state in the recent period have been managing a wide range of development activities. But devolution of functions to these institutions has not been fully operationalised. This scenario has created functional deficiencies and overlapping in functions. Further, the functioning of the PRIs in many cases being hampered by various parallel institutions. The institutions such as School Management Committees (SMCs) and Forest Management Committees (FMCs/VSSs) are nurtured which have limited functional linkages with the PRIs (GPs) and Gram Sabhas.

**6.2.2. Slow Process of Activity Mapping:** The state government has taken various initiatives for undertaking a comprehensive Activity Mapping that aims at spelling out activities related to each function of the PRIs in a more clear-cut manner as compared to 1998 order. Activity Mapping has been prepared for 27 of 29 subjects of the PRIs as mentioned

under 11<sup>th</sup> Schedule of the Indian Constitution and the State Panchayat Raj Act, 1993. The process of Activity Mapping has been completed in February, 2006 and necessary government orders are issued to operationalise the activity mapping in the state.

However, in spite of the preparation of Activity Mapping framework on 27 subjects, executive orders have not been issued so far to operationalise Activity Mapping in the State.

**6.2.3. Standing Committees of the PRIs:** Though the Standing Committees of the PRIs have been institutionalised in the state but in actual case the services of these Committees have not been utilised fully. The recommendations of these Committees have not been considered in many cases and no fruitful action has been taken on the recommendations of these Committees.

**6.2.4. Delivery of Services by the PRIs:** The PRIs are involved in providing a range of physical services which are basically linked with Drinking Water Supply and Sanitation, Road Connectivity, Health, Education, Housing Facility and Electricity supply to small hamlets/villages in the rural areas of the state. The key physical and social services which are being implemented by the PRIs are supply of drinking water under Nal-Jal Scheme, IHL (Individual Household Latrines) under Swachha Bharat Mission (SBM), Houses under Pradhan Mantri Awas Yojana (PMAY) and Roads under Pradhan Mantri Gram Sadak Yojana (PMGSY) and other schemes and programmes. It was observed through this study that the GPs are in many cases are directly involved in the implementation of various physical and social services and the JPs and the ZPs are providing monitoring and technical support to the GPs for this.

**6.2.5. Own Revenue of the PRIs:** The status of own revenue of the PRIs, in particular the GPs show that they have collected more fees than Obligatory Taxes and Optional Taxes during the last three years. However, in many cases the gap between demand and collection has increased which shows the failure of the PRIs with regard to tax collection. Further, the own revenue of PRIs located in the PESA Area is relatively low. Though in some GPs, the Self-Help Groups (SHGs) are involved in the process of collection of various taxes but this practice has not been covered in entire state.

**6.2.6. Mismatches between devolution of funds and functions:** The crucial factor that has crippled the fiscal autonomy of the PRIs in the state is incomplete process of devolution. The state government has adopted the devolution policy that has been introduced in the undivided MP. During the period 2006 to 2007, the state government has taken many policy measures and devolved many powers and functions to the PRIs in keeping with the state specific needs. As many as 27 functions relating to 29 subjects enumerated in the Eleventh Schedule of the Constitution have been devolved to the PRIs in the state.

However, it is observed that in some cases only functions have been devolved to the PRIs without functionaries and funds. For example under the subject of Animal Husbandry, Dairy and Poultry, the PRIs have no funds provision but they have functionaries and functions. Similarly, under the subject of Social Forestry and Farm Forestry, the PRIs have functions but they do not have funds and functionaries. (The Forest Department Functionaries are not part of the PRIs). Further, two key functions namely Minor Forest Produce and Technical Training and Vocational Education have not been devolved to the PRIs in the state.

**6.2.7. Poor fiscal allocation:** The extent of fiscal devolution depends on the expenditure responsibilities and revenue assignments devolved to the lower tiers. However, in the case of Chhattisgarh, the GPs in the current period have been receiving funds from the Central Government as per the recommendations of the 14<sup>th</sup> Finance Commission. However, there is no funds provision made for the JPs and the ZPs under the 14<sup>th</sup> FC which have affected their functions in many ways. Further, under various Central and State Sponsored Schemes/ Programmes, the GPs have received more funds than the JPs and the ZPs. This scenario also in some extent hampered the development spirit of the institutions (JPs and ZPs) and affected their functions.

However, it was observed that the PRIs (in particular the GPs) have utilized the money for improving drinking water supply, sanitation facility, road connectivity and street lighting in various villages. These initiatives have helped the GPs as unit of providing service delivery to the people.

**6.2.8. State Finance Commissions and Tax decentralisation:** The SFCs have been institutionalised in the state with an aim to examine the fiscal relationship between the states and the local governments (the PRIs as well as Urban Local bodies) with regard to the collection of tax revenues by the latter and to suggest the necessary recommendations thereon. The State Government has already constituted First, Second and the Third SFCs and the recommendations of the First and the Second SFCs recommendations have been implemented in the state. However, it was observed through this study that various key recommendations of the SFCs have not been transferred into Action Taken Report. Even in some cases, the state has not been implemented fully some key recommendations despite preparation and adoption of Action Taken Report. Our interaction with various stakeholders revealed that in many cases they are not aware about the functioning of the SFCs and their recommendations and status of implementation.

**6.2.9. Fiscal dependency:** It is observed that the so called financial decentralisation has given birth to fiscal dependency. This scenario has led to the fiscal inefficiency and reduced their role as mere implementers of the government programmes. For the

implementation of different development programs, the PRIs are waiting for "sanction orders" from higher level government departments, which hinder the timely and effective implementation of the development programs.

*6.2.10. Transfer of funds:* Transfer of funds to the Local Governments either from the state or from the central government is currently based on the rigid procedures. The emergence of the Central Sponsored Schemes (CSS) in India has multiplied the workload of the PRIs in the state. However the funds transfer process has further enhanced the burden. In this connection the Second SFC also observed that funds flow from the line departments to the PRIs have been delayed because of various reasons. In some cases like MGNREGA, there observed a routine delay in paying wages to the workers. Similar scenario was also observed in the case of Swachha Bharat Mission (SBM). Lack of clear-cut guideline and existence of bureaucratic pattern of administration also in some cases created the scenario of delay.

## CHAPTER - 7

### Conclusion and Policy Recommendations

It is on the basis of issues emerged from the study, this report argues for the proactive policy measures which are needed to strengthen the Fiscal Decentralisation regime of the State. The state government should take the issue of Own Revenues of the PRIs seriously and should amend the policies accordingly. It is suggested that at least 9% of SOTR should be transferred to the PRIs to meet the service delivery functions.

#### 7.1. Policy Recommendations

It is on the basis of findings observed through the process of field study and analysis of data, the following policy recommendations may be taken for implementation by the State Government for strengthening PRIs in the state.

*7.1.1. Strengthening PRIs in the State:* In terms of devolution of functions (out of 29 in the 11<sup>th</sup> Schedule) Chhattisgarh ranks 7<sup>th</sup>, whereas in terms of devolution of functionaries the position of the state is 21 and regarding devolution of finances, state rank is 18 which does not augur well. This position needs to be radically altered and state must take steps to fully devolve 3 Fs to the local bodies, which will pay way for overall development of the rural areas. It was observed that two key functions such as Minor Forest Produce (MFP) and Technical Training and Vocational Education have not been devolved to the PRIs in the state.

Since, MFP has been playing a greater role in livelihoods of the Adivasis in the state, the power of managing MFP should be vested to the PRIs. It is also suggested that the PRIs should be devolved more powers, adequate number of functionaries and funds from the state government for effective functioning.

*7.1.2. Strengthening Effective Delivery of Services:* It was observed through the field study that despite the implementation of the above mentioned schemes and programmes, some villages still do not have road connectivity, drinking water supply, and other physical services. Providing quality physical services has become a key challenge for many GPs. A major reason of deficient physical services is lack of adequate funds provision, insufficient functionaries and ambiguity in functional devolution process. In some cases, though the PRIs have developed various physical services/assets, the maintenance of these assets has become a challenging task for the PRIs. It is therefore necessary that apart from

creating new assets for providing physical services, the PRIs should give emphasis for the maintenance of the existing assets. This can improve the quality of services.

**7.1.3. Own Revenue of PRIs needs Further Attention:** The status of own source of revenues of the PRIs in the state reveals that in many cases the gap between demand and collection has increased which shows the failure of the GPs with regard to tax collection. Looking into the fee structure of the PRIs, in particular of the GPs, it is suggested that more items/subjects should be included under this category. Further, it is suggested that the PRIs who have adequate sources for tapping own revenues such as Fish Ponds, Market Complex, Shops, Weekly Markets and such other sources should provide special assistance for maintenance of these assets for a certain periods. Further, those who do not have such assets or have few assets should encourage creating such assets through various schemes like MGNREGA and NRLM.

**7.1.4. Providing Finances to PRIs:** This study calculated the requirement of funds toward infrastructure in rural areas, which constitute the 75% of total requirements, leaving 25% for establishment expenses. Taking the fiscal position of state into account, this study suggest for the grant of Rs. 8966.89 crores for PRIs for five years (2017-2022) and the rest of gap of around Rs. 4000 crore can be fulfilled with additional budget from State and Central Government through various schemes and efforts of PRIs for additional resource mobilisation.

Table 7.1. Highlights the proposed Schemes of Devolution with proposed devolution for each tier of the PRIs in the State.

	Type of Panchayat	Amount (in crore Rs.)
i)	Gram Panchayats - 80%	7173.52
ii)	Janpad Panchayats - 15%	1345.02
iii)	Zila Panchayats - 5%	448.35
<b>Total</b>	<b>100%</b>	<b>8966.89</b>

**7.1.5. PRIs should get better Financial Support:** This study suggests that 9% of the net SOTR should be transferred to the PRIs in the state. As per the 2011 census, nearly 76.8% of the Chhattisgarh's State Population is resident of Rural Areas. Hence using this proportion, it is prudent to suggest that 6.91% Net STOR should devolve for the PRIs in the award period 2017-18 to 2021-22. (Table 7.2) This suggestion of 9% of Net SOTR, is 1% more than what was agreed by the Chhattisgarh State Government, towards the recommendation made by the Second SFC.

**Table 7.2 Computation of Projected Divisible Pool of Net SOTR  
for the Current Award Period for PRIs.**

(Rs. In crore)							
Sl No	PARTICULARS	2017-18 BE	2018-19	2019-20	2020-21	2021-22	Total
1	NET SOTR	20610.16	22906.4	25609.36	28631.26	32009.74	129766.92
2	Suggested for Divisible Pool of 9% of Net SOTR for Local Bodies (PRIs and ULBs)	1854.91	2061.57	2304.84	2576.81	2880.87	11679.02
3	PRIs ( 6.91% of Net SOTR)	1424.16	1582.83	1769.61	1978.42	2211.87	8966.89

**7.1.6. Criteria for Devolving Funds to the PRIs:** This study after carefully examining various socio-economic parameters and considering the recommendations of the First and Second SFC of the State, suggested the distribution criteria and weights as follows: (i) Population (2011 Census)-60%, (ii) Geographical Area-15%, (iii) SC/ST population-10%, (iv) Deprivation index of Social Economic Cast Census 2011-10% and (v) Women literacy-05%. Distribution among PRI from the divisible pool of resources should be done on socio-economic criteria like (i) population, (ii) concentration of SC/ST population, (iii) and other key indices as mentioned above.

It is worth to be noted here that the previous SFCs (First and Second SFC) have considered various criteria for devolving funds to the PRIs, These are (i) Population (weightage 60%), area (20%), SC/ST Population (10%) and Households Below Poverty Line (10%).

**7.1.7. PRIs in PESA Region should get better Attention:** In Chhattisgarh out of total 27 districts, 13 districts are PESA districts. PESA districts are resource poor in general and most of the panchayats lack good infrastructure. State needs to allot more resources to the PESA regions. Considering this, an extra PESA grant, say Rs.5 lakhs, (untied) needs to be given to every PESA gram panchayat. This should be an additional allocation other than the general grants by the state government. This will go a long way in meeting crucial resource gap being faced by the GPs. In these villages, own revenue of GPs is very low. This additional grant will compensate this revenue loss.

**7.1.8. Strengthening Capacity of the PRI Members and Functionaries:** Capacity building for the PRIs, in particular the members and the functionaries of the PRIs should be based on their area and need. Effective capacity assessment study should be done before organising capacity building programmes and implementation should be done accordingly. While conducting capacity building programmes for the elected members and functionaries of PRIs, it is important to give focus on enhancement of own revenues of the PRIs. The functionaries and members should also be adequately equipped about budget allocation

and effective and timely utilisation of money. It is necessary to ensure that the training institutions are fully equipped with the necessary physical and human infrastructure like buildings, hostels, staff quarters, training aids like computers as well as a talent pool of trainers.

**7.1.9. *Special Incentives should be Provided to the PRIs with better Own Revenue:*** In view of a significantly low tax-bearing capacity of a large majority of rural people of the state coupled with a pronounced reluctance of the Panchayats to levy and collect taxes, there is an immense need to introduce attractive incentives for them with a view to motivate the Panchayats to exploit all their available revenue sources fully. Such an incentive in the form of a revenue related matching grant is proposed to be introduced in the state. Such a matching grant is proposed to be offered at a higher rate to the Panchayats in the tribal areas vis-à-vis their counterparts in the non-tribal areas.

**7.1.10. *Effective Implementation of SFCs Recommendations:*** It was observed that despite the acceptance of many recommendations by the state, the actual status of implementation is not observed at the ground level. So, it is suggested that the SFC Cell of the P & RD Department should be strengthened and gives adequate support for monitoring the implementation of the recommendations of the SFC. Further, at the ZP level, a Cell also needs to be constituted for reviewing and monitoring the implementation of the recommendations of the SFC.

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**ANNEXURE**  
**Annexure-I**

		Financial Position of the State										(Rs.in Crore)	
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)				
I	TOTAL REVENUE	25867.38	29578.08	32050.27	37932.80	46067.71	53685.25	68580.04	72867.97				
A	State Own Revenue	14770.73	17650.15	19443.88	20581.97	22289.65	24614.46	32153.04	34200.00				
	State's Own Tax Revenue	10712.25	13034.21	14342.71	15707.26	17074.85	18945.21	24438.04	26030.00				
	State's Own Non-Tax Revenue	4058.48	4615.94	5101.17	4874.71	5214.80	5669.25	7715.00	8170.00				
B	CENTRAL TRANSFERS	11096.65	11927.93	12606.39	17350.84	23778.06	29070.79	36427.00	38667.97				
	Share in Central Taxes	6320.44	7217.60	7880.22	8363.03	15716.47	18809.16	21280.00	22954.97				
	Grants from the Centre	4776.21	4710.33	4726.17	8987.81	8061.59	10261.63	15147.00	15713.00				
II	Capital Receipts	1710.01	3605.20	5581.94	6638.74	5299.94	5140.12	9947.13	10228.16				
	Non Debt Capital Receipts	1288.67	1547.47	1650.05	199.07	299.74	175.73	305.00	314.02				
	Public Debt /public accounts Receipts	421.34	2057.73	3931.89	6439.67	5000.20	4964.39	9642.13	9914.14				
III	Total Receipts (I+II)	27577.39	33183.28	37632.21	44571.54	51367.65	58825.37	78527.17	83096.13				
	Total Expenditure	27953.13	33779.96	38752.29	46206.08	51811.28	57968.26	78622.98	83179.26				
	Revenue Expenditure	22628.04	26971.84	32859.57	39497.20	43701.06	48164.60	65392.10	68422.62				
	Capital Expenditure	4056.36	4919.33	4574.19	6620.56	7945.00	9470.51	12735.42	14453.93				
	Loans and Advances	1268.73	1888.79	1318.53	88.32	165.22	333.15	495.46	302.71				
	Revenue Surplus(+)/Deficit (-)	3239.34	2606.24	-809.30	-1564.40	2366.65	5520.65	3187.94	4445.35				
	Fiscal Deficit	-803.23	-2658.34	-5064.75	-8078.42	-5443.83	-4107.28	-9737.94	-9997.27				
	Primary Surplus(+)/Deficit (-)	489.97	-1304.85	-3614.22	-6314.81	-3294.93	-1420.45	-6480.14	-6249.82				

*Source:* Various Years of Budget At a Glance and Budget in Brief of Chhattisgarh, RBI, State Finances: A Study of Budgets (various years) and Arthik Sarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

**Annexure-II**

**Financial Position of the State**

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)
I TOTAL REVENUE	25867.4	29578.1	32050.3	37932.8	46067.7	53685.3	68580	72868
A State Own Revenue	14770.7	17650.2	19443.9	20582	22289.7	24614.5	32153	34200
B Central Transfers	11096.7	11927.9	12606.4	17350.8	23778.1	29070.8	36427	38668
II Capital Receipts	1710.01	3605.2	5581.94	6638.74	5299.94	5140.12	9947.13	10228.2
III Total Receipts (I+II)	27577.4	33183.3	37632.2	44571.5	51367.7	58825.4	78527.2	83096.1

*Source:* Various years of Budget At a Glance and Budget in Brief of Chhattisgarh, [http://finance.cg.gov.in/budget\\_doc/main\\_budget.asp?](http://finance.cg.gov.in/budget_doc/main_budget.asp?) RBI, State Finances: A Study of Budgets (various years) and ArthikSarvekshan 2016-17, Directorate of Economics and Statistics, Chhattisgarh.

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