

Hon'ble Speaker,

1. Panchayats in Jammu and Kashmir have had a glorious history. The first ever initiative on strengthening the grass-root institutions was taken in 1935 with the promulgation of the Jammu and Kashmir village Panchayat Regulation No. 1 by Maharaja Hari Singh. The preamble of the Act was futuristic and very well articulated.
2. It stated:"..... It is expedient to establish in Jammu and Kashmir State the village Panchayats to assist in the administration of the civil and criminal justice and also to manage the sanitation and other common concerns of the village."

3. Beginning with this first historic step, Jammu and Kashmir had, over time, made considerable movement in giving power to the people. The following steps merit a special mention: The Panchayat Act of 1935 was amended in 1941 widening the areas of functions and, inter-alia, transferring all public roads, movable and immovable public properties in villages, to the Panchayats.
4. The Naya Kashmir programme launched in 1947 aimed at democratic decentralization, rural reconstruction and social justice. The Panchayat Act of 1935 as amended in 1941 was replaced in 1951 by The Act-V of Samvat 2008 according to which a Panchayat was to cover five to seven villages which constituted a Revenue Halqa and to perform certain administrative, developmental, civil and judicial

functions. The Jammu and Kashmir village Panchayat Act 1958 aspired to make better provision for the administration of village Panchayats. The Jammu and Kashmir Panchayat Raj Act-1989 was to promote and develop Panchayati Raj system in Jammu and Kashmir as an instrument of vigorous local self- Government.

5. Eighty-three years have passed since the first Panchayat Act was promulgated in the State. The critical issue before us is: What have we achieved since then in empowering the grassroots institutions? Both in principle and in practice? Are the 4,400 Panchayats in our State anywhere close to being "institutions of self-Government" today?
6. Is the top-down planning approach effective in creating assets and services

in an efficient manner and to the satisfaction of the end-users? Does the centralised system recognise, identify and resolve the basic issues faced on a day-to-day basis by our people living in rural areas? Has the bottom-up approach of planning ever been considered in the State even on a pilot basis?

7. In the last Panchayat elections held in 2011, over 79 percent of our voters exercised their franchise, one of the highest voting rates in the country. Our women and men came to participate in the democratic election process with a hope and a dream about grassroots governance. I believe it is possible to give such dreams a meaning.
8. Our Government firmly believes that good governance initiatives have to be

tied with strengthening Panchayats and municipalities ensuring equitable distribution of benefits to our people in the State.

9. The State Government is set to hold the Panchayat elections next month. I am sure before the next fiscal we shall have the third tier of governance in place. While all of us acknowledge that conducting these elections is going to be a challenge, I believe that an even bigger challenge is to make these elected bodies effective.
10. In other words, would it be enough to have an elected third tier of governance in place? I don't think so. For a local governance system to deliver the kind of transformation that we want on the ground, there is a need to do much more.

11. With this objective of ensuring that these institutions of local governance become fully functional both in terms of functions and finances, I am taking this unprecedented initiative of a Panchayat budget.
12. A study done across the country shows that the functioning of the Panchayats, in respect of functional and fiscal assignments, is hampered by unfunded mandates. It is highly revealing that while 25 of the 29 allotted functions have been devolved to Panchayats, only three of them are backed with budget heads. And even those are not allocated any funds.
13. Again, an examination of the State budget and the district sector budget, which contains funds earmarked to the Panchayats, shows that several schemes

which cover activities devolved to the Panchayats are not handed over to the LGs.

14. They are either retained at the State level, or represented by budgetary windows in both the State and the district sector budgets, giving the State leeway to implement these concurrently with the Panchayats.
15. Operationally, the State budgetary heads overlapped with district budget heads. This creation of duplicate heads of expenditure and failure to assign funds to the Panchayats suggests a latent resistance to devolution on the part of the State departments.
16. Accordingly, I propose a new framework for budgetary and financial empowerment of the Panchayats so that they become potent instruments of

change and development in the State. The basic idea of this framework is the democratisation of public expenditure and not just devolution of funds and provision of grants.

17. Even as the level of public expenditure will be decided in relation to State level resource availability, the structure of public expenditure will be democratically decided at the grass roots level.
18. This shall not bring the State closer to its people but the people closer to the State. In the process, it will address their aspirations of taking part in governance decision making, planning, funding and execution of developmental works with active local participation.
19. This is an appropriate time to try and build such a framework as nationally there is a renewed momentum towards

fiscal federalism in response to the global crises.

20. As the Panchayats are expected to be in place soon, and ULBs, hopefully, not long thereafter, there is a need to evolve an appropriate framework for their functioning and mechanism for sharing of central transfers as well as the State Government revenues with the PRIs and ULBs.
21. To do this in a transparent and unbiased manner, I propose the constitution of the State Finance Commission in the State. The composition and the Terms of Reference (ToR) of the Commission shall be notified shortly. The Government is required to constitute a State Finance Commission in terms of the Jammu and Kashmir State Finance Commission for Panchayats and Municipalities Act, 2011.

22. Accordingly, based on the recommendations of the State Finance Commission, which will be co-terminus with the recommendation of the Fifteenth Finance Commission, the rules, regulations, and modalities to receive the funds, their utilisation and accountability by every Panchayat and every municipality will be worked out by Finance Department on priority.
23. Along with this, I propose that Panchayats as well as the respective departments need to carry out department-wise reviews of activities assigned to the Panchayats. This will ensure role clarity and avoid duplication of administrative and implementation efforts.
24. Based on the review, departments should ensure that financial allocations

to the Panchayats match the activities, with no Local Government responsibility remaining unfunded. This will help track performance and assign accountability across all levels of Government for assigned activities.

25. We will also ensure that there is standardization of accounting codes and practices across all Panchayats within the State. In view of this and the increasing responsibilities envisaged for PRIs, the Comptroller & Auditor General of India (C&AG) has prescribed standardized formats for preparation of budget and accounts by PRIs.
26. We shall also move to this simplified 'Model Panchayat Accounting Manual' prescribed by the C&AG. The purpose of this manual is to give a clear understanding of the Accounting system

which needs to be followed in PRIs. It provides a policy base as well as practical guidance to PRIs in implementing an effective accounting and financial management system. It also provides the accounting codes and the accounting formats for different transactions. The salient features of this system are that each institution i.e. Zila Parishad/ Block Panchayat / Gram Panchayat is a separate accounting entity. Also the accounts are to be kept on cash basis i.e. recording shall be done only when the amounts are received and paid, not on their becoming due.

27. The MPAM is based on the Model Accounting System but uses the 'Generally Accepted Accounting Principles' (GAAP) to create a scalable, robust financial accounting system

which can be enhanced to include modern accounting techniques in future.

28. The Fourteenth Finance Commission has taken a very significant decision to focus on funding only the Halqa Panchayats in the whole PRI structure.
29. The finance department has already released the grants received from the centre amounting Rs. 367.72 Crore to Halqa Panchayats in two instalments. The Panchayats have also generated their own resources to the tune of Rs 20 crores in the past few years.
30. However, this year we have made a provision of Rs. 1000 crore in the State budget for the Panchayats and ULBs. In addition to these central transfers, the State budget will also make two sets of transfers to the Panchayats and ULBs; first is the second order devolution i.e.

their share of State taxes and second will be expenditure underwriting of some of the basic public expenditure so as to equalise delivery of public services across Panchayats and local bodies in the State.

31. Pending the recommendation of the State Finance Commission, the State Government will transfer 10 per cent of the State taxes to these bodies. In addition to these, the possibilities of raising debt will also be explored for ULBs.
32. Underlying its commitment towards local governance, based on the principle of subsidiarity, the State Government shall move towards constituting Panchayati Raj Institutions (PRIs) at all the three tiers and to hold elections to Halqa Panchayats, Block Development Councils

and District Planning & Development Boards under the Jammu & Kashmir Panchayat Raj Act, 1989.

33. Post elections and constitution of all the three tiers, The District Planning and Development Boards will take over the functions hitherto performed by the District Development Boards.
34. I also propose appointment of Ombudsman for Local Governance to act as a watchdog as well as a problem resolution platform for better functioning of the PRIs.
35. Till the time the State-level structure and the general governing rules are finally put in place, I propose the guidelines for local level plans.
36. First, in keeping with the principle of subsidiarity, plans formulated by the

Halqa Panchayats and Block Development Councils will form the basis for the District Plans subject to sectoral ceilings and overarching priorities laid down by the State Government.

37. In other words, all such programmes which can be planned and executed at the block level without sacrificing planning efficiency, will be included in the block plan. Similar approach will be followed in respect of Panchayat Halqa level activities.
38. Second, an indicative outlay of the annual Plan shall be conveyed by the Government to each district in advance so as to enable the Draft Plans to be formulated by the Halqa Panchayats, Block Development Councils and District Planning & Development Boards.

39. Third, once the Annual Plan outlay for the State has been settled, and sectoral provisions and priorities determined by the State Government, the total outlay for the District Plan will be communicated to each District Development Commissioner, together with the sectoral breakup.
40. Fourth, the District Development Commissioner shall cause suitable instructions to be issued to the Block Development Councils and the Halqa Panchayats to prioritize their programmes keeping in view these outlays. Based on the consolidation of the revised plans received from the Halqa Panchayats and the Block Development Councils, the District Development Commissioner shall submit the District Plan for approval to the District Planning and Development Board.

41. Fifth, the District Development Commissioner shall also function as Chief Executive Officer to the District Planning and Development Boards. He shall also oversee the development of the district and shall continue to exercise the powers of a Major Head of the Department for all development departments functioning in the district.
42. The intention behind the above arrangements is to ensure that the bulk of administrative approvals and technical/financial sanctions that are involved, in respect of the District Plans, are issued at the district level itself, instead of losing time in making references to the Divisional or State headquarters to seek such sanctions.
43. A minimum critical level of resources will need to be made available for the

District Plan by ensuring that a substantial part of the total plan outlay for a year constitutes the District Plan. The determinant factors in deciding the quantum of District Plan component will be as under:

44. Schemes of local nature in various sectors and which impinge upon the district priorities will constitute the District Plan. Further,
45. Inter-District projects or projects that have State wide ramifications shall not form part of the District Plan.
46. Schemes that are likely to take more than three years to complete would not be generally included in the District Plan.
47. Cumulative commitments will be monitored and should not normally

exceed three times the size of the annual District Plan.

48. New Schemes would be taken up only after the technical scrutiny and preparation of estimates by the competent authorities.
49. In respect of the Centrally Sponsored Schemes, funds would not be authorized by the District Development Commissioner without a formal sanction being issued by the Competent Authority viz. the Governing Boards/ Administrative Department/ Planning and Development as the case may be.
50. The J&K Panchayat Raj Act 1989, as amended from time, empowers PRIs to collect a number of local taxes. The PRIs, however, have not been able to exercise such powers mainly because the enabling orders and notifications

have not followed the principal Act so far.

51. The Government shall take adequate steps to have all such enabling orders/notifications issued so that the PRIs are able to collect taxes and generate their own sources for better delivery of services.
52. One of the functions of the PRIs is to provide avenues of dispute resolution to people locally. The Government shall endeavour to provide optimum infrastructure to the Panchayats to deliver justice in accordance with the law. The Government shall also invest in capacity building of the local bodies through appropriate fiscal and advisory interventions to build effective dispute resolution mechanism at the grass-root level. This will not only greatly enhance

the role of PRIs but shall also benefit the public immensely.

53. Ladakh already has certain administrative arrangement in place in terms of the Ladakh Autonomous Hill Development Council Act. These arrangements will continue so far as both Leh and Kargil districts are concerned.
54. A State level campaign to create awareness about local Governments, its functions, funds, functionaries and freedom is a must. Training and capacity building of the Panchayat level functionaries with regard to maintaining of account, preparation of a plan, monitoring of works etc is also very important. Capacity building shall, accordingly, form an important component of the whole system.

55. In addition to all the inter-governmental transfers, I am proposing another landmark initiative of providing basic banking services in Panchayats in such a way that it is profitable for the banks and sustainable for the system.
56. The banking sector in Jammu & Kashmir is not only quite wide and varied but also unique in many respects. It is the only State in the country that owns a Scheduled Commercial Bank. The J&K Grameen Bank, a Regional Rural Bank with more than 200 branches, is yet another banking institution in which the Government has a majority stake holding; 15% directly by the State Government and 35% through the State-owned J&K Bank. We also have a large stake in another Regional Rural Bank, The Ellaquai Dehati Bank,. Similarly the Government has

considerable shareholding in the co-operative banks as well.

57. I propose to consolidate the dispersed shareholding and leverage the existing branch network with the twin objective of empowering the Panchayats and strengthening community-based banking.
58. In the process, I would have created a State level financial architecture and aligned it with not only the developmental policies of the State, but also given institutions an access to finance and credit which is not available today to the extent required.
59. Also, the new financial architecture will ensure that all the players in the financial sector have specialised roles while complimenting the efforts of each other.

60. We have five categories of Financial Institutions in the State with an aggregate network of more than 2,000 branches. Interestingly more than 1,500 bank branches are in rural and semi-urban areas. In the current scenario of extensive commercial banking, cooperative banks and institutions like the State Finance Corporation are in distress.
61. The Regional Rural Banks (RRBs) and the Cooperative Banks are an important segment of our banking framework. They have a total branch network of more than 600 branches. Even as these two categories of financial institutions were formed with an intention to provide credit to rural economies and mostly to agriculture, their business mix has undergone a complete change

especially after economic reforms were introduced in the country in early 1990s.

62. These banks, which were supposed to be exclusive specialist banks lending to agrarian sub-economies, are now seen struggling and jostling for business with commercial banks.
63. To have an idea of the competition they are facing from bigger players and to understand their business predicament in the current scenario, it is worthwhile to compare their outreach with that of the commercial banks.
64. As compared to 986 branches of commercial private sector and public sector banks in the rural and Semi-urban areas of the State, the total branch strength of cooperative banks is just 266. The RRBs which are

exclusively rural banks have another 350 branches. The huge difference in the footprint virtually elbows out the cooperative banks and RRBs from the available business opportunities.

65. It is interesting to note that the Apex level J&K State Cooperative Bank has just 30 branches out of which 10 are in urban areas. It is the only Cooperative bank that is in profit today. Another fully owned State Level Bank, The State Cooperative Agriculture and Rural Development Bank has 51 branches with accumulated losses of Rs. 62.50 crore. The extent of accumulated losses of the cooperative Banks as on 31.12.2017 was more than Rs. 420 crore. The gross NPAs of the Cooperative Banks exceed 15% on a State-wide basis.

66. More important, however, is the fact that except for the JKSCB all the State run cooperative banks have lost their Banking licences awarded by the RBI and are running in losses.
67. The three-tier structure of the cooperatives has had logic of inclusiveness and equitable distribution earlier. Now, with the advent of technology, shortening of distances and overall economic growth, this structure needs a serious rethink. For example, the function of the J&K SCB is similar to that of the DCCBs and therefore, from banking logic there is absolutely no difference between the two.
68. The State Government has been considering various options of recapitalising these banks for their revival. However, till the time a proper

business model for the cooperative banks is not put in place their chances of revival even after capitalisation are minimal.

69. Also, there is need to identify and recognise the inherent strengths of our sub-economies and link them with modern financial instruments through specialist financial institutions.
70. The first thing that comes to mind when we think of planned financial interventions are the heritage industries of the State. Even as J&K is not an industrialised State per se, every household, especially in the valley, has an entrepreneurial capability since ours used to be a small artisanal craft based economy. Industry in Jammu and Kashmir has been historically identified with its arts & crafts.

71. It is also important to understand the socio-cultural significance of crafts beyond business which underscores the imperative for their growth. The best way to develop our heritage industries is to develop customised off-the-shelf financial products available from specialist financial institutions which have a certain competence in lending to arts and crafts.
  
72. Through this Panchayat-Banking-Cottage Industry network, I propose to create a model where a solo household entrepreneur, like an artisan is linked with accessible credit at affordable price. By doing so, not only would we have set in place a system to revive our heritage, we can help put the State on a faster path of development and growth.

73. For the key idea - leveraging the large banking network available in the rural J&K for financial intermediation of grass roots developmental initiatives - to fructify, it is imperative to link our Panchayats with the financial institutions in a proper and systematic way.
74. Accordingly, I propose the following:
75. The restructuring of the federal structure of the credit cooperatives of the State from the existing three-tier to a two-tier system by merger of the District Credit Cooperative Banks and the State Cooperative Agriculture & Rural Development Bank with the J&K State Cooperative Bank.
76. The merged entity with a total Branch strength of 240 branches and a footprint in all the districts of the State shall be converted into a Specialist Bank for the

Handicrafts & Agriculture Sector and as an exclusive Banker to the PRIs of the State.

77. What we are looking at through this restructuring of cooperative banks is to create a "Panchayat Bank" which will provide rural citizens with improved access to a range of Government schemes as well as financial services, allowing citizens to carry out basic financial transactions.
78. Also, it will give access to benefits of Government schemes such as pensions and Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) payments.
79. Primary Agricultural Cooperative Societies, Apex Cooperatives Societies and Artisan SHGs shall be the members of the proposed new Bank.

80. The Government shall set-up a Special Task Force of experts drawn from the domains of Banking, Cooperation, Law and Information Technology to prepare a roadmap for formation of the new bank. The new Bank will have a professional Board of Directors with an experienced Banker as the Chief Executive Officer.
81. The State Government shall take adequate steps to augment the capital of the new bank bringing in additional capital, whenever necessary, to ensure that it meets the statutory requirements prescribed by the regulators as well as to augment its business.
82. The assets of the merged entities shall be valued by a professional valuation agency, upon whose recommendations suitable decisions relating to

appropriation shall be taken by the State Government.

83. The initiative shall also lead to the creation of local entrepreneurs amongst community members and provide a source of livelihood to bank operators. It will reduce systemic leakages and increased transparency as well, as the new system, coupled with the Aadhar-based direct transfer system, credits money directly into the account of MGNREGA workers who can withdraw the money through biometric authentication.
84. This new set up will take at least a couple of years to be up and running. Till such time, we shall use, the State level Bankers Committee (SLBC), to ensure that there is a Banking Correspondent (BC) in every Gram Panchayat.

85. I am instructing the SLBC to commission a mapping of the bank branches in the State in relation to Gram Panchayats. Based on this, a plan to banking infrastructure will be proposed.
86. Secondly, we will have to equip Panchayats with basic infrastructure to provide broadband internet connectivity to operationalise banking and other digital payment services in their area. I am making a provision of Rs. 10 crore. The IT department would execute this project on priority.
87. I will make arrangements to provide BCs with micro ATMs, particularly enabled with Aadhar based payment system. We will seek the cooperation of telecom operators to commissioning of sufficient mobile towers through Universal Service Obligation (USO) fund.

88. To further improve access and bring banking facilities closer to the village level, I propose to introduce financial services as part of the existing system of Common Service Centres, or Khidmat Centres.
  
89. To synergise various activities and in line with my earlier idea of making constituency as a unit of development and moving towards a legislator oriented governance model, I am proposing to take one baby step. The jurisdiction of divisions and sub-divisions of various developmental departments is not co-terminus with the jurisdiction of the administrative units. This results in huge difficulties to the people availing government services as well as supervision of such units. There is an urgent need to redraw the jurisdiction of divisions and sub-divisions of various

developmental departments at the field level to address such incongruities.

90. The boundaries of units of different departments need to be aligned keeping the Assembly Constituencies as the next sub unit for a district. Within the Assembly Constituencies, all departments need to set up their basic units as per norms without overlapping with any other Constituency. I propose to initiate the necessary groundwork in this regard.
91. A sub-group under my chairmanship will go into the entire issue. Chief Secretary, Administrative Secretary, Finance, Administrative Secretary, PD&MD, Administrative Secretary, Revenue and Administrative Secretary, GAD will be the Members of this sub-group which will undertake a comprehensive review of the jurisdiction of divisions and

sub-divisions in various developmental departments and other such departments so as to bring their jurisdiction in harmony with the administrative revenue units in a time bound manner.

92. Once this exercise is done, ideally the boundaries of blocks should be co-terminus with a certain number of panchayats depending on the size and other variables. The required legislative approval for this will be sought at an appropriate time.
93. With these initiatives, I hope we will be able to take panchayats of J&K back to the heydays of the 30s and 50s and the entire country will look up to emulate us as they did in the past!