Finance constitutes the backbone, the life and blood of Governments as it provides fuel to the administrative machinery. The importance of finance is so great in administration that David Lloyd George, former Prime Minister of the United Kingdom (1916-1922), is said to have once remarked that 'Government is finance'. The local self government institutions have their own course of action, planning for it and funding it independently. The Panchayati Raj bodies shoulder a wide range of responsibilities. There are about 29 functions enlisted in the Eleventh Schedule of the Constitution for which the responsibility has been given to the Panchayati Raj Institutions. Out of these, 21 functions are mainly devoted to the developmental activities and social responsibilities. For these essential objectives to be realized, it is necessary that they should have their own sources of finance which should be assured of sources and not depend on donations and like grants-in-aid. The local government system in India had been weakened mainly because of financial inadequacy and lack of financial autonomy.

Finances should follow functional assignments. But Panchayats are marked by their poor internal revenue effort and high dependence on grants-in-aid and assigned revenues from both Central and State governments. Improving own sources strengthen the link between revenue and expenditure decisions of the rural local bodies at the margin, which is extremely important to promote both efficiency and accountability in the provision of services. But the resource mobilization by the Panchayats is limited as the taxes like land revenue, house tax, etc. transferred to them by the State governments are less buoyant in nature.

Further, expenditure functions remain non-transparent and very little expenditure autonomy has been given. It is important to specify expenditure responsibilities to enhance accountability, reduce unproductive overlap, duplication of authority and legal challenges. As state governments faced themselves with several resource constraints, the revenue accruals to the local
bodies are not adequate to enable them to effectively deliver the required standards of public services.

While recent studies on Panchayati Raj Institutions (PRIs) in India have focused on issues relating to the role of Panchayats in poverty alleviation and employment generation programmes, resource allocation favouring disadvantaged groups and improved participation of women in decision-making process, the own revenue effort of Panchayats has received little attention. There is no standing national database on Panchayat finances in India, which limits any meaningful analysis of revenue effort of Panchayats. Reports of the central finance commissions serve as the only source of information. Central finance commissions collect data on own revenue of Panchayats from the state governments. Against this background, there is a need to conduct a study to examine these issues. Therefore, the present study is taken up to examine these issues. The present study is unique as it studies the revenues and expenditures of Gram Panchayats over a period of 30 years in the three selected districts of Andhra Pradesh and offers policy implications to improve the financial administration of the Gram Panchayats.

Panchayat Raj offers enormous possibilities of making local governance and the rural development process more need-based, participatory and productive, while at the same time being accountable and transparent. The actual operation of PRIs is of greater significance now more than ever before. PRIs are considered as partners of the central and state governments in carrying out development functions. Article 243-G introduced by the 73rd amendment to the Constitution empowers state governments to vest village Panchayats with powers and responsibilities to prepare plans for their economic development and social justice and implement schemes to achieve these objectives. PRIs are also seen as a vehicle to implement major development programmes. Consequently, there is a continuous effort on the part of policy-makers to evolve systems and mechanisms to enable PRIs to perform and deliver their newer roles more effectively.
One of the key tests to real empowerment of Panchayats lies in the ability of local self-governing institutions to finance their own expenditures through internal generation of resources. Addressing the fundamental issues surrounding Panchayat finances is central to improving the ability of Gram Panchayats to fulfill their role as agents of economic development. Focused action on internal revenue generation by Panchayats could have a transformative effect on local governance and, more fundamentally, the quality of life of citizens in rural India. In view of the magnitude and nature of development activities entrusted to Panchayats, it is impossible for them to raise revenue locally to meet all the expenditures. Even if adequate tax resources are devolved, the Panchayats do not have the machinery to administer them. To know the problems involved in the Panchayat finances a detailed enquiry is needed regarding all sources of revenue of the Panchayats and their expenditures. Hence, studies are needed to suggest measures to improve the revenue generation of the Gram Panchayats. Therefore the present study will be useful to the policy makers, researchers, academicians, etc.