Chapter 5

FINANCIAL MANAGEMENT IN PANCHAYATI RAJ
CHAPTER - FIVE
Financial Management in Panchayati Raj

The main concern of financial management is the efficient and wise allocation of funds to various uses (Solomon, 1969, p.8). It has now become a well-known fact that financial management formulates the institutions' strategy in determining the most effective use of the funds currently at its disposal and in selecting the most favourable sources of additional funds that it will need in foreseeable future (Kulshrestha, 1991, p.41). Panchayati Raj institutions must make economic choices and all have an obligation to use scarce resources efficiently, just as a profit making organization do. Since Panchayati Raj Institutions commit large sums of money to projects that incur costs and generate benefits over a long period of time, either the investment decisions or financing decisions or both, a proper financial planning and management is a must for these institutions to get the best results. The present chapter is devoted to analyse the important factors and elements responsible for developing an effective financial management system of government organizations in general and PRIs in particular. The entire chapter is divided in three different sections for the purpose.

FRAMEWORK OF FINANCIAL MANAGEMENT IN GOVERNMENT ORGANISATIONS

In general, financial management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise. For the business enterprises, the scope of financial management is much wider than the government enterprises. It encompasses in investment decisions, financial decisions and dividend decisions. Investment decisions include investment in fixed assets (called as capital budgeting). Investments in current assets are also a part of investment decisions called as working capital decisions. Financial decisions relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby. The decisions with regards to the net profit distribution are known as dividend decisions.

In case of financial management of government organizations like PRIs, there is no scope of dealing with dividend decisions. The investment decisions are also very restricted to developmental projects funded by the upper tier governments. Only financial decisions relating to procurement of funds out of own sources or the other are very crucial so far the financial management is concerned. In view of the limited scope of financial management in government entities as compared to its counterpart in
corporate bodies the objective and basic elements of financial management in not-for-profit organisations are dealt with in the subsequent sections.

The broad financial management objectives of governmental enterprises would be to maintain accountability and establish financial control over funds (JFMIP, 2004, p.9). An effective financial management should have -

- Ensure budgetary integrity by establishing financial control over governmental funds, obligations, assets, and liabilities;
- Safeguard and control governmental resources to prevent waste, fraud, abuse, and mismanagement;
- Ensure the reliability of the government’s reported financial condition;
- Ensure efficiency in financial operations by maintaining an effective financial infrastructure; and
- Ensure public confidence and credibility through effective financial management governance, standards, and stewardship.

**Basic Elements of an Effective Financial Management System of PRI**

**Accounting and Financial Reporting**

Accounting is fundamental to stewardship of public funds. The purpose of accounting is to record financial events and ensure accountability as required by law. Accounting data must also provide the basis for program performance measurement. Accounting principles and standards govern when, where, and how financial events are executed and recorded, and provide for accountability through agency and consolidated financial statements required by law.

On the other hand for the financial reporting services purposes of depicting accurate, current, and complete disclosure of the financial results of financially assisted activities and it must be made in accordance with the financial reporting requirements as prescribed in prevailing laws and rules as applicable. The details of basic conceptual issues relating to government accounting and reporting have been discussed in previous chapter.

**Internal Control**

Internal control is one of the key elements of an effective financial management system and is an integral part of management’s "control" of an organization. Broadly construed, internal controls consist of all those policies and procedures which management develops and maintains to provide reasonable assurance that the financial management and programmatic goals of the institution will be achieved. Internal control systems are basically management control systems with a view to ensuring compliance with rules and regulations, reliability of financial data and reports, and to
facilitate efficiency of government operations. A sound internal control framework, of which internal
audit is an important element, is required to assure that government operations attain some basic
fiduciary standards in guarding against misuse and inefficient use of resources; for safeguarding
government assets; countering fraud and error; checking maintenance of satisfactory accounting
records; and whether budgetary objectives set out in the government policies are being achieved.
Thus, “Internal controls can be regarded as one of the foundations of good governance and the first
line of defense against improprieties. They also provide the public with ‘reasonable assurances’ that
if improprieties do occur, they will be made transparent and made appropriately addressed.”
After the guidelines on Establishing and Maintaining a System of Internal Controls as issued by OMB
of Federal Government, USA (http://dev.dhfs.wi.gov/grants/FMM/B4INTLC0N.htm) an effective internal
control system is needed to:

- ensure that resources are used in a manner consistent with laws, regulations, and policies;
- minimize the likelihood of waste, fraud, or misuse of agency resources;
- obtain and maintain reliable financial and program data which is essential to sound internal
  management and to effectively meet external reporting requirements;
- meet contractual and legal requirements; and
- satisfy the public’s expectations that agencies receiving public funds are making every effort
  to adhere to sound, fundamental business practices.

Internal Control is defined as a process, affected by an entity’s decision makers, management and
other personnel designed to provide reasonable assurance regarding the achievement of objectives
in the following categories:

1. Effectiveness and efficiency of operations;
2. Reliability of financial reporting; and
3. Compliance with applicable laws and regulations.

Internal controls exist in the basic management processes of planning, executing and monitoring. It
should not be viewed as an add-on to these basic management processes but should be viewed as
an integral part of them and should be placed at strategic points in these processes to ensure that
objectives are achieved.

Internal control is at the core of PRIs fulfilling their mission and achieving their goals while providing
safeguards to protect governmental resources. However, it is noteworthy that costs of implementing
internal controls should not exceed the potential loss from fraud or the value of assets that the controls are established to safeguard.

Internal Control consists of five interrelated components. These components are:
1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

Control Environment

The control environment can be best summarized as the attitude that management has about internal controls. If management believes that internal controls are important, is committed to implementing controls and communicates this view to employees, then internal controls are more likely to function effectively. However, if management views internal control as not important or as an obstacle, then this attitude will likely be communicated to employees through management’s actions. With this attitude, employees will likely view internal controls as "red tape" to be "cut-through" in order to get the job done. An effective control environment is an intangible factor that sets the foundation for all other components of internal control.

Risk Assessment

Risk assessment is the process used to identify, analyze and manage the potential risks that could hinder or prevent an organization like panchayat body from achieving its objectives.

All entities have certain risk involved in meeting their objectives and providing services to internal parties (e.g. line departments of State government) and external parties (e.g. taxpayers and citizenry). This is based upon the premise that opportunity and risk are related; therefore, PRIs is exposed to risk by simply fulfilling the opportunity that it has to better serve the citizens under jurisdiction. By this definition, it can be seen that risk should not be viewed negatively but simply inherent to the decision of doing business.

Control Activities

Control Activities are the policies, procedures, techniques and mechanisms that enforce management’s directives, such as the process of adhering to requirements for budget development.
and execution. They help ensure that actions are taken to address risks. Internal Control Activities should be an integral part of an entity's processes for planning, implementing, reviewing, ensuring accountability for government resources and achieving effective results.

Internal Control Activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security and the creation and maintenance of related records that provide evidence of execution of these activities as well as appropriate documentation. Control Activities should preferably be applied in a computerized information system environment.

Information and Communication

For a PRI to run and control its operations and achieve its desired objectives, communications relating to both operational and financial data is needed at all levels of the entity in a relevant, reliable and timely fashion.

In addition to internal communications, management should ensure that there are adequate means of communicating with and obtaining information from external parties that may have a significant impact on the PRI achieving its goals.

Pertinent information should be identified, captured and distributed in a form and time frame that permits people to perform their duties efficiently.

Besides, personnel should know their job responsibilities and how their activities relate to the work of others; A means should exist to permit upward communication within any organization; and Employees should be confident that reprisals will not result from communicating significant information.

Monitoring

Subsequent to implementing internal controls, it is necessary periodically to monitor and evaluate their effectiveness to ensure that the controls are functioning properly. Potential weaknesses in Internal control structure may be identified by Statutory Audit, Internal Audit or by employees of PRIs. When members of Panchayat bodies are notified of these weaknesses, they should take corrective action to resolve the identified problems in their internal control structure. Although monitoring is a separate component of internal control, it is easy to see how it relates to the component of Internal control environment.
Budget Control

Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Compliance

Local governments like PRIs must comply with central and state government laws and regulations, local ordinances and other legal requirements.

TECHNIQUES OF FINANCIAL MANAGEMENT IN PRIs

Cash Management

The cash management function of any organization is responsible for establishing and maintaining a set of policies and procedures with the dual purpose of ensuring that funds are available to cover payments made for program purposes, while also ensuring that neither state nor federal funds have been drawn unreasonably in advance of when they are needed to pay for program expenses.

In local government, the cash management function falls under the purview of the finance director or the treasurer, depending on the structure of the organization. In a small local government, the finance director will typically have complete responsibility for day-to-day cash management duties. Larger local governments have staff dedicated to the cash management function and may have a designated finance officer who handles the local government’s investments on a full-time basis.

Public sector cash management offers many challenges. Local governments must perform a delicate balancing act: on the one hand, they need enough liquidity to meet operating expenses and other cash demands; on the other, they need to invest their funds to earn as much revenue as possible. To further complicate matters, local governments must maximize revenue without putting their funds at risk and must conduct their affairs under the watchful eye of the public.

The first step in improving cash management is to have a clear understanding of what cash management means. Cash management is more than investing funds. The cash management function begins when the government receives monies owed, ends when the payers’ checks clear, and includes all activities in between.

The following is a list of the objectives of a sound cash management function.

Managing liquidity. The main objective of cash management is liquidity management. The finance officer must make sure that enough cash is on hand to meet the government’s financial obligations.
Accelerating collections. A central part of liquidity management is to collect all monies owed and to do so in the most efficient way possible. (The next major section of this chapter discusses collection systems.)

Maximizing investment earnings. Once funds have cleared the banking system and are available for use, the government must decide what to do with those funds until they are needed. Because investing exposes governments to risk, it is important for local governments to familiarize themselves with investment tools and techniques that can help minimize exposure to risk while maximizing investment earnings potential.

Reducing the need to borrow. Private sector finance managers can draw on bank lines of credit to cover temporary shortfalls of cash. Although some local governments can do so as well, most rely on internal transfers from other funds or issue tax anticipation notes (TANs) to cover temporary shortfalls. Careful cash management—collecting all monies owed and making efficient use of those funds until needed—may help local governments minimize the need for frequent fund transfers or reduce the need to borrow. How disbursements are managed will also influence how much cash will be available for investment.

Managing disbursements efficiently. Instead of delaying disbursements, local governments can employ certain techniques to manage disbursements efficiently and effectively. A good cash management policy will specify how disbursements will be handled, whether to take advantage of discounts, and what types of bank products will be used to manage disbursements.

Providing accurate and timely reporting. Knowing how much cash is on hand is a very important part of the cash management function. Governments need to have accurate reporting systems in place. Many banks offer real-time balance reporting information. Governments can use these services to check their internal records against the bank’s records to make sure all incoming and outgoing cash is recognized and accounted for correctly.

Revenue Management

Following are requirements that the PRIs should have to follow in procurement of fund out of own sources and fund receive as revenue grant from upper tier government:

1. that the PRI has effective revenue collection systems consistent with PRI’s credit control and debt collection policy;
2. that revenue due to the PRI is calculated on a monthly basis;
3. that accounts for PRI tax and charges for PRI services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
4. that all money received is promptly deposited into the PRI's primary bank/Treasury accounts;

5. that the PRI has and maintains a management, accounting and information system which—
   ✓ recognizes revenue when it is earned;
   ✓ accounts for debtors; and
   ✓ accounts for receipts of revenue;

6. that the PRI has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;

7. that the PRI charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and

8. that all revenue received by the PRI, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

Expenditure Management

Regarding expenditure management in PRIs following are the aspects need to be addressed:

• that the PRI has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;

• that the PRI has and maintains a management, accounting and information system which—
   ✓ recognizes expenditure when it is incurred;
   ✓ accounts for creditors of the PRI; and
   ✓ accounts for payments made by the PRI;

• that the PRI has and maintains a system of internal control in respect of creditors and payments;

• that payments by the PRI are made—
   ✓ directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed; and
   ✓ either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit;

• that all money owing by the PRI be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure;

• that the PRI complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
• that any dispute concerning payments due by the PRI to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
• that the PRI’s available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
• that the PRI’s supply chain management policy referred to in section 111 is implemented in a way that is fair, equitable, transparent, competitive and cost-effective; and
• that all financial accounts of the PRI are closed at the end of each month and reconciled with its records.

Asset Management

Good management of local authority-owned property assets is as important as the management of other resources within the entity. A comprehensive asset register should be seen as the first step by local authorities in meeting the criteria of “best practice” as part of an authority-wide property strategy. It is important to recognize that asset registers will be required to support any new form of capital accounting that might be introduced over the next few years. For the effective, efficient and economic delivery of services, it is vital that all property holdings are utilized to the best advantage.

Properties that are too large for their required use are inefficient, both in terms of annual running costs and, more importantly, in terms of the opportunity cost of capital for the areas which are not used to their full capacity. In addition, there may be further repercussions in other resource areas apart from the property itself. For example, the physical characteristics of a building might adversely affect the effective delivery of a particular service.

The essential features of an asset register as referred in guidance note of CIPFA (1991) may be described as below:

 Asset registers are records of fixed assets whose value is material. Their function is to provide the information about assets needed for their financial management, operational management and servicing; and to support fixed assets as shown in the balance sheets. Asset registers thus include a wider range of information than computerized property records, and substantially more than the inventories kept primarily for assets of lower value.

Thus it can be concluded from the above guidelines that the registrar would be responsible for the identification of assets and existing records; the assessment of the suitability of those records to the requirements of the asset register for that particular authority; and, having determined the extent of available information, the registrar would then need to ensure that any additional data required were assessed and collated. An asset register should contain the following records for the purpose of financial management:

> all property owned or occupied (with a note on tenure);
> infrastructure assets (highways, coast defences, monuments, etc.);
> council housing and other local authority housing (e.g. service tenancies);
> specialized buildings (leisure properties, crematoria, abattoirs, etc.)
> leased property and properties where authorities have user rights; and
> buildings under construction.

Considering the present limited information base of recording and recognising the assets that belong to organisations like PRIs in our state the following steps may have been adopted in preparing asset registers:

- **Identification and assessment of existing information sources.** Most PRIs have purpose-designed records of their property holdings. The legal register of deeds, the terrier of property (written and map based) are not available in most of the cases. Thus special cares need to be taken to identify record and value the assets in preparing the asset registers.

- **Documentary research of records.** The queries like who owns what property, where are the boundaries of the holding (are they disputed?) and what is the legal position regarding tenure need to be cleared.

- **Physical inspection of the assets.** This includes assessing the physical condition of the property, to determine the extent and nature of current usage and to collate all information required to undertake the capital valuation of the asset.

**PROCESS OF FINANCIAL MANAGEMENT IN PRIs OF WEST BENGAL**

The objective of developing accounting structure and system of financial management compatible to present days need and challenges that the PRIs in West Bengal are facing is based on the following goals:

1. improve financial management of the PRIs so as to attain the basic concept of accountability—to safeguard public money and use it economically, efficiently and effectively;
2. strengthen management information systems for monitoring the fund
3. management and administrative functioning of the three tier Panchayat system;
4. strengthen compliance machinery;
5. support ease of access to financial information and budgetary execution; and
6. standardise through the use of GOI CAG guidelines to format budget and accounting formats used in each tier of the PRI.

It may be said budget rules support the accounting structures and double entry accounting systems in the ZP and PS (2003) and in the GPs (2007). During 2007-2008, all PRIs in Howrah district have
adopted by-laws for imposition of tax and non-tax revenue as a result of accounting structure and system implementation and the collection of own revenue has increased substantially during the period. All of the GPs visited in September, 2009 had issued by-laws with a schedule of non-tax charges after the election of 2008 (revising the rates set by the previous council). These non-tax sources, especially business licenses and licensing of enlisted contractors, along with the homestead tax, are cited as the main drivers of own source revenue increases in all four of these GPs. The by-laws were issued based on state guidelines, prescribing maximum rates, and input from the local business community. Since 2009, the PRDD illustrated a newly reformed fund transfer structure. This structure indicates that for Indira Awas Yojna (IAY), State Grants to PRIs (LGB), the 2nd SFC Grant, and the Backward Region Grant (BRGF) funds flow from state fund transfer (FT) accounts to ZPs FT accounts directly into designated bank accounts of the GPs. Beginning in April, 2009, the fund transfer system was modified to decrease timing and accounting problems of the GPs given a transfer mechanism that had been in place since August, 2007. The current system provides that “immediately after a certain amount under any programme is credited in the fund transfer account at the state, ZP or PS level, the State Bank of India is required to transfer the fund to the destination within two days from the date of receipt of the fund transfer advice from the authority” (GOWB, July 2009, slides 9-10). Accordingly, from the state level, funds flow from the state FT account to the FT accounts of the “Zilla Parishads, Mahakuma Parishad or to the Designated Bank Accounts of the DRDC/MRDC or of the District Panchayats and Rural Development Officer. Thereafter, funds transfer to the FT accounts of the Panchayat Samities and/or to the designated bank accounts of the GPs, as the case may be and depending upon the nature of the programme” (GOWB, July 2009, slides 9-10).

The use of the FT account has been preserved solely at the district and block level as they are able to easily identify the source (scheme) of the deposits received at this transit account; this is a more difficult task at the GP level.

Generally, plan and non-plan grants from the GOWB and transfers to PS and ZP levels are through a local fund account. Funds related to CSS and other funds which flow to the PSs and ZPs from agencies are operated through specified banks accounts opened for separate schemes. Since GPs are not physically close to treasuries, they do not need to open a local fund account (that is held with the treasuries).

GPs opened fund transfer accounts in 2007 but problems with that system (particularly timing issues and the notification of fund availability for the GP) resulted in the changes made effective in 2009, as mentioned above. The fund transfer accounts were closed and program-specific accounts were opened in GP banks of choice. A general fund is also kept in those banks for untied or other general funds.
Regarding specific funds whose experience may be relevant for the design of the any future grant, BRGF funds are transferred from the state to the ZP and from there are split into three portions: one for PRI corporations, one for the blocks and a third one transferred directly to GP accounts (see Table 5.1 below). Although blocks would be entitled to pass on part of their share to the GPs, the only PS interviewed denied devolving their share of funds to GPs. In the case of SRD funds, these are transferred directly from districts to GPs, bypassing the block level, although small amounts of SRD funds are allocated for planning purposes at the PS level. Only SRD and NRHM funds are mandated to be passed on by GPs to the GUS level; for BRDF fund this is a voluntary option that is hardly ever exercised on the basis of the GPs visited.

Table 5.1
FLOW OF FUNDS FOR SELECTED FUNDS/SCHEMES

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Funds/ Schemes</th>
<th>Mechanism of Flow of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indira Awas Yojna</td>
<td>State FT Account &gt; FT Accounts of ZPs &gt; Designated Bank Accounts of GPs</td>
</tr>
<tr>
<td>2</td>
<td>State Government Grants to PRI</td>
<td>State FT Account &gt; FT Account of ZP &gt; LF Accounts of the ZP, PS and Designated Bank Accounts of GPs</td>
</tr>
<tr>
<td>3</td>
<td>State Finance Commission</td>
<td>State FT Account &gt; FT Account of ZP &gt; LF Accounts of the ZP, PS &gt; LF account of the PS State FT Account &gt; FT Account of ZP &gt; Designated Bank Accounts of GPs</td>
</tr>
<tr>
<td>4</td>
<td>Backward Region Grant Fund</td>
<td>State FT Account &gt; FT Account of ZP &gt; Designated Bank Accounts of the ZP, State FT Account &gt; FT Account of ZP &gt; FT Accounts of the PS &gt; Designated Bank Accounts of the PS State FT Account &gt; FT Account of ZP &gt; Designated Bank Accounts of GPs</td>
</tr>
<tr>
<td>5</td>
<td>Central Finance Commission</td>
<td>State FT Account &gt; FT Account of ZP &gt; LF Accounts of the ZP, State FT Account &gt; FT Account of ZP &gt; FT Accounts of the PS &gt; LF account of the PS State FT Account &gt; FT Account of ZP &gt; Designated Bank Accounts of GPs</td>
</tr>
<tr>
<td>6</td>
<td>Indira Gandhi National Old Age Pension Scheme</td>
<td>State FT Account &gt; Designated Bank Account of the DPRDOs &gt; Designated Bank Account of the GPs</td>
</tr>
</tbody>
</table>

Source: Notification 1406-PN/O/II/3B-5/2005, Government of West Bengal
Once funds are transferred by PRDD to the ZP FT account, the latter also receive communication stating the amounts to be transferred to a) the Local Funds (LF) Account of the ZP (ZP Share); b) the LF Accounts of the PS (Panchayat Samity share); or c) the Designated Bank Accounts of each individual GP.

Money from the GP goes to the GUS bank account and then the GUS president and secretary jointly manage the funds. The secretary maintains the cash book; the president will keep all banking documents. At the beginning of the year, GPs give GUS a check as an advance for the projects to be implemented during the year. The GUS will call a meeting and discuss the scheme and then start the development work for the project or activity. If there is any balance left after project completion, the GUS gives a check to the GP for the remaining balance in the course of monthly reviews of project progress.

### Table 5.2

<table>
<thead>
<tr>
<th>SI No.</th>
<th>Records/Registers</th>
<th>Implication in Financial Management If not Properly Maintained</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Grant Appropriation Register</td>
<td>Grant received; purpose and date of receipt, appropriation made from time to time and amount lying unutilised in respect of a particular grant/loan as on 31 March of each year could not be ascertained.</td>
</tr>
<tr>
<td>2.</td>
<td>Store Account Register</td>
<td>The date of receipt, amount, condition of food grains and materials as received and outlay of these items and balance there on as on 31 March each year cannot be ascertained.</td>
</tr>
<tr>
<td>3.</td>
<td>Demand and Collection</td>
<td>Demand, collection and balance for a particular year could not be ascertained. In absence of posting of the collection money in the register, the detection of fraud and embezzlement would be difficult.</td>
</tr>
<tr>
<td>4.</td>
<td>Work Register</td>
<td>In absence of work Register, schemes taken up, estimated cost, the progress of work and its details, namely, value of work done, payments made, materials issued date of completion, works not completed/ suspended, outstanding amount to be paid against the work executed could not be ascertained. Any excess payment in terms of cash and/or material would be difficult to detect</td>
</tr>
<tr>
<td>5.</td>
<td>Deposit ledger</td>
<td>Amount of the deposits and their adjustments could not be ascertained and as a result possibility of misappropriation and embezzlement of money could not be ruled out.</td>
</tr>
</tbody>
</table>
6. Registers of Immoveable Properties
   Identification and valuation of assets, proper records of all land, sites of buildings, tanks, ponds etc could not be ascertained

7. Advance Ledger
   The purpose of giving advance, how long it remains unadjusted and how much amount have been realised /adjusted as on 31 March each year could not be ascertained. As a result, the possibility of loss on the part of PRIs cannot be ruled out.

Source: Prepared by the Scholar

It has been found that the asset management takes a vital part in the process of financial management of PRIs in West Bengal. Due to the ongoing decentralization as a result of 73rd Constitution Amendment Act, local governments have to provide an increasing number of services with limited financial resources. The real property assets of the local governments are often very significant in value compared to their annual budget revenue or expenditures. While many properties are not intended to generate revenue, it is possible that revenues could be substantially increased. It is important to note that PRIs usually have much more freedom of choice over handling their assets and liabilities than they do over own sources of revenues. For example, raising taxes and fees is a politically sensitive process but managing property is far less demanding and risky.