CHAPTER – V

FINANCIAL SYSTEM
IN RURAL DEVELOPMENT
Finance is the life of any organization. Creating an organization and giving wide powers and responsibilities without adequate financial resources is like dressing a dead woman. As the taxation Enquiry Commission 1953–54 put it, “apart from growth and development, the crux of the problem of local bodies is finance”. It is recognized that the success of local self-government bodies depends upon a considerable extent on the financial resources available to them. There is also a need to maintain a balance between the expanding functions and the role entrusted to the local bodies and their financial resources. Nowhere in the world, the local bodies function without substantial assistance from governments.

At the same time, it will detract from the dignity and autonomy of a self-governing institution, if it is to be entirely dependent on assistance of government. It is essential for the stability and growth of these institutions that they should have substantial and growing resources which are entirely within their power to exploit and develop. Such being the importance of finances for the successful working of the local bodies. There is no doubt that financial autonomy can go a long way in enhancing the prestige and status of Panchayat Raj Institutions.
Panchayat Raj Institutions have been assigned civic, developmental and welfare functions. For the effective discharge of these functions, Panchayat institutions must be provided with matching finance. Hence, the effectiveness of any panchayat institutions as a unit of local government, will depend on matching finance, either by way of taxation or by grants from higher bodies.

The funding of local government like panchayat institutions is determined by a number of ecological factors. Such factors as their structure, size and level of local units, functions accorded to these units the quantum of financial assistance. In a way, all these factors have symbolic relations with panchayat finance in determining the effectiveness of their functions. The structure of the panchayat institutions to a large extent determines the financial autonomy and soundness of fiscal administration. Likewise, the size of the panchayat unit is an important factor in determining local finance.

The physiography, human settlement and the level of development are crucial factors in any serious attempt to understand panchayat finance.

The scope and scale of panchayat finance are also determined by the functions assigned to these bodies. The wide-ranging functions of these bodies naturally demand enhanced and enlarged finance. Hence, larger the number of functions of the panchayat bodies, greater the need for finances and lesser the number of functions, lesser will be the need for finances. Apart from all these considerations, the policies of the state government and
the central government have a decisive influence in shaping the operational
dynamics of these gross root level organizations.  

The quantum of financing assistance from these apex governmental organizations determines the place of rural development. Funds for investment in rural development projects come from two main sources; domestic and foreign. Further, in each category, there are institutional and non-institutional sources. Domestic institutional sources include the government, government undertakings including public enterprises, the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Cooperative Banks, Commercial Banks and Regional Rural Banks (RRBs), private companies and corporations. Non-institutional sources include households, money lenders, traders, friends and relatives. Foreign institutional sources include foreign governments, development agencies, the World Bank, the Asian Development Bank, A.D.B., the International Monetary Fund (IMF), Foreign Banks, Multinational Corporations, and so on. Foreign non-institutional sources include Non-Resident Indians, and foreign nationals.
Sources of Funds For Rural Development:

Figure 4.1

Domestic Institutional Sources:

Domestic Institutional sources of rural credit include the government, the Reserve Bank of India, National Bank for Agriculture and Rural Development (NABARD), Cooperative Banks, Commercial Banks (CB's), Regional Rural Banks (RRB) and Self-Help Groups (SHG).

Domestic Institutional Sources:
Central And State Governments:

The government in the past has been, still is, and in future will continue to be the most important source of funds for rural development. At the national level, the Union Ministry of Finance is responsible for mobilization and administration of financial resources in rural development. It also regulates the expenditure of the government, including transfer of resources to the states. 4 Power to raise and disburse public funds has been divided under the constitution between union and state governments. The sources of revenue for union and the states are, by and large, mutually exclusive, if sharable taxes and duties between the two are excluded. The constitution provides that; (a) no tax can be levied or collected except by authority of law; (b) no expenditure can be incurred from public funds except in the manner provided in the constitutions; and (c) executive authorities must spend public money only in the manner sanctioned by parliament in case of union and by the state legislatures in the state.

All receipts and disbursements of the union are kept under two separate heads, namely the Consolidated Fund of India and the Public Account of India. All revenue received, loans raised and money received, in repayment of loans by the union form the Consolidated Fund. No money can be withdrawn from this fund except under the authority of an act of parliament. All other receipts, such as deposits, service funds and
remittances go into public account, and disbursements there from are not subject to the vote of parliament. To meet unforeseen needs not provided in the Annual Appropriation Act, a Contingency Fund of India has been established under Article 267(1) of the constitution. The constitution provides for the establishment of a consolidated fund, a public account and contingency fund in state.

The main sources of the union tax revenue are custom duties, excise duties, corporate and income taxes. Non-tax revenues largely comprise interest receipts, including interest paid by the railways and telecommunications ministries. The main heads of revenue in the states are taxes and duties levied by the respective state government, a share of taxes levied by the union and grants received from the union. Property taxes, octroi and terminal taxes are the ministry of local finance. Devolution of the resources from the union to state is a salient feature of the system of federal finance. Apart from their share of taxes and duties, state government receive statutory and other grants, as well as loans for various development and non-development purposes.

With a view to encouraging individuals, corporate and non-corporate bodies to participate in national effort of rural development. The National Fund For Rural Development (NFRD) was established in Union Ministry of Rural Development in February 1984. The fund is managed by a committee under the chairmanship of the Prime Minister. Donations made by taxpayers
to the National Fund for Rural Development are deductible while computing taxable income under sections 35 CCA and 80 CCA of the Income Tax Act, 1961. This project can be executed through an implementing agency, having the legal status of corporation established by a central and state act concerned with development of rural areas.

Donors, while making donations, may recommend their preference for the area and the rural development programmes for which the donations utilized, as also the implementing agency through which the programme undertaken and implemented. The recommendations, if any of the donors are given due consideration to the extent deemed appropriate by the government and management committee of the fund.

The Reserve Bank Of India:

The Reserve Bank of India was established under the RBI Act, 1934 on 1 April 1935 and nationalized on January 1949. The RBI is the sole authority for issue of currency, other than one rupee coins, subsidiary coins and notes. As the agent of the central government, the RBI undertakes distribution of one rupee notes and coins as well as small coins issued by the central government, state governments, commercial banks, state cooperative banks and some of the financial institutions. It formulates and administers monetary policy, with a view to ensuring stability in prices, while promoting higher production in real sector through proper deployment credit. RBI
plays an important role in maintaining the stability of the exchange value of the rupee and acts as an agent of the government in respect of India's membership of the International Monetary Fund (IMF). The RBI also performs a variety of developmental and promotional functions.

The RBI was a pioneer central bank in the sphere of rural credit. Its funding act of legislation and subsequent amendments entrusted to it, the responsibility for enlarging the availability of rural credit. The bank shouldered this responsibility rather reluctantly until 1947, when, after independence, this responsibility was reinforced and became a major responsibility of the bank. The activities of the RBI in the sphere of rural credit can be broadly divided into three categories; (a) financing functions; (b) promotional, advisory and coordinating functions; and (c) regulatory functions.

The first category covers the provision of long term loans to state government from the National Agricultural Credit Fund, to enable them to contribute to the share capital of the cooperative credit institutions; provision of medium-term loans to the state cooperative banks to refinance the seasonal crop loans of credit cooperatives; granting medium-term loans to the state cooperative banks from the National Agricultural Fund to enable them to repay their short-term loans to the RBI under conditions of drought or famine; and short medium and long-term loans to National Bank for Agriculture and Rural Development (NABARD). Its promotional and
Coordinating functions include formulation of programmes for cooperative credit under the five-year plans. Annual reviews of the progress of various credit schemes, assistance to the central and state government and cooperative credit institutions are taking their problems in implementing credit schemes. The regulatory functions include establishing credit limits and credit norms for various purposes and control of advances by commercial and cooperative banks.

**National Bank For Agriculture And Rural Development (NABARD):**

National Bank For Agriculture And Rural Development came into existence on 12 July 1982. It took over the functions of the erstwhile Agriculture Credit Department, Rural Planning and credit cell of the Reserve Bank of India and Agriculture Refinance and Development Corporation. National Bank for Agriculture and Rural Development (NABARD) established for providing credit for promoting integrated rural development and security prosperity of rural areas.

Amendments to the NABARD Act, 1981 were introduced in the year 2000. These inter alia relate to NABARD’s role in credit regulation, enhancement of capital limit from Rs 500 crores to Rs 5,000 crores, private equity holding up to 49 percent with a minimum of 51 percent by Government of India and RBI, changes in the compositions of the Board.
with increased representation of state government and shareholders, mobilization of resources independent of RBI clearances subject to Board’s approval.

NABARD provides refinance to state land development banks, scheduled commercial banks and regional rural against the term loans sanctioned by them to the ultimate beneficiaries who can be an individual, partnership concerns, companies, state owned corporations etc.

Since 1995-96 NABARD has been sanctioning loans to state government taking up new rural infrastructure projects related to rural roads and bridges, food protection schemes, major and medium irrigation and watershed management schemes, etc., from the Rural Infrastructure Development Fund (RIDF) constituted by the union Government with NABARD.

During 2000-01, NABARD disbursed Rs.6,218 crore as refinance for investment purposes. The short-term (ST) credit limits sanctioned for 2000-01 to Scheduled Commercial Banks (SCBs) for seasonal Agriculture Operations upto the end of March 2000-01 aggregated to Rs. 6,399.92 crore. Outstanding against this limit stood at Rs. 4,966.39 crore as at the end of March 2001. The credit limit sanctioned during 2000-01 included Rs.936.62 crore for Oilseed Production Programme (OPP), Rs. 48.87 crore for National Pulses Development Programme (NPDP) and Rs 211.36 crore for
Development of Tribal Population (DTP), short-term credit limits sanctioned to RRBs for seasonal agricultural operations (SAO) for 2000-01 aggregated Rs. 1,114.42 crore up to March 2001. The outstandings NABARD reference under SAO credit limits sanctioned to RRBs amounted to Rs. 986.84 crore as at the end of March 2001. More than 1,49,050 Self Help Groups (SHG) were linked to banks during 2000-01. The loan assistance during the year was Rs 287.88 crore with NABARD refinance at Rs. 250.62 crore. The cumulative position of self-help groups linked have thus gone up to 2,63,825 with cumulative loan assistance of Rs 480.87 crore and NABARD refinance of Rs.400.74 crore as on 31 March 2001.

**Cooperative Credit Societies:**

Cooperative Credit Societies entered that field of rural finance with the adoption of the cooperative societies Act of 1904. Since then, the government has been making deliberate attempts to nurture the cooperative movement in the country in the larger interests of the rural people. Credit Cooperatives has been recognized as the best institutions to provide rural credit to the farmer, because they satisfy all the important criteria of sound agricultural credit.

Credit Cooperatives have many advantages over other sources of credit. First, being located right in the rural areas where their borrowers reside, they are in close proximity to their clients, second, they have more
intimate knowledge of the character and abilities of their members than any other financial institutions. Third, they can easily supervise the use of credit, so that it is used for productive purposes. Fourth, the credit provided by the credit cooperatives is neither too rigid nor too elastic; it is also safe, as it assists, does not hamper, the borrowers stability and productive capacity. Lastly, the credit provided by cooperative societies is bound to be cheap, due to their lower administrative costs.

**Commercial Banks:**

In January 1997, the commercial banking system in India consisted of 334 scheduled banks and two non-scheduled banks. Of the scheduled banks, 223 were in the government and they accounted for around 80 percent of the deposits of all scheduled banks. In July 1969, 14 major commercial banks were nationalized and another six in 1980. Now there are 28 public sector banks having a mandate to provide credit to rural beneficiaries. In addition, 246 private commercial banks are also operating in the country. These banks provide short-term, medium-term and long-term credit for various agricultural and rural development activities. Until the nationalization of major commercial banks in 1969, the official policy was to give a fillip to the cooperative system as the channel best suited for institutional credit for agriculture. Before their nationalization, commercial banks supplied only a negligible share of rural credit: 0.9 per cent in 1951-
52 and 0.6 per cent in 1961-62. Even after nationalisation, they were a bit hesitant in going full steam ahead in financing agriculture; four years after nationalization, their share in total rural credit was only 5 percent in 1973-74.

In the year of 1995, there were some 34,949 rural branches of scheduled commercial banks spread over the country side. These accounted for 56 percent of the total branches of these banks in the country. The share of commercial banks in direct agricultural advances went up from 1.3 percent of bank credit in July 1969, to 13.2 percent in March, 1984 and to 33.2 per cent as on 31, March, 1995. The banking system has strategic role to play in providing finance for anti-poverty programmes.

**Rural Infrastructure Development Fund :**

The Rural Infrastructure Development Fund (RIDF) was set up in NABARD in 1995-96 for giving loans to state government and state-owned corporations for quick completion of rural infrastructure projects. The corpus of Rs. 2000 crores was to be contributed by scheduled commercial banks (excluding foreign banks and RRBs) which fell short of their agricultural lending sub-targets under priority sector lending. While in 1996-97 and 1997-98 Rs. 2500 crores each were allocated to the fund, in 1998-99 Rs. 3000 crores, in 1999-2000 Rs. 3500 crores, 2000-01 Rs. 4500 crores and in 2001-2002 Rs. 5000 crores were allocated. Till March 2000, on deposits collected for the fund, NABARD used to pay interest at 11.5 per cent on
quarterly rests to banks and charge 12 percent quarterly rests to state
governments with the condition to repay in 5 years with a 2 year
moratorium. With effect from 1st April 2000, the rate of interest had been
reduced by ½ percent to 11 ½ percent and form 1st April 2001 it has been
further reduced to 10 ½ per cent for state government to pay. Rural
Infrastructural Development Projects under medium and minor irrigation,
land development and rural roads and bridges were taken up under the fund
in the beginning.

Later, the activities like watershed and soil conservation, integrated
market yards, integrated cold chains, inland water transport projects, rural
godowns, flood protection, drainage, fish jetties, premises for health
services, drinking water supply, village haats (shandies) etc., of gram
panchayats have also been included.

In the beginning, loan assistance used to be up to 50 per cent of the
projects cost on ongoing projects. For small projects with cost below Rs. 1
crore, loan assistance used to be up to 80 per cent. For new projects
presently assistance is given up to 90 per cent of the total cost.

**Banking And Credit In Karnataka:**

Karnataka has a better banking network system than any other states
in the country. Apart from 20 Nationalised Banks, the State Bank of India
and its 7 associate banks are operating in Karnataka. There are also over 25
private sector banks besides 13 Regional Rural Banks operating in the state. Dakshina Kannada district alone is the birthplace of four major nationalized Banks, namely, Canara Bank, Sydnicate Bank, Corporation Bank, Vijay Bank, and one private sector bank namely, Karnataka Bank. Two other major banks born in Karnataka are the State Bank of Mysore in the public sector and the Vysya Bank in the private sector.

However, over 66 per cent of the total banking business turnover in the state is concentrated in 7 major banks with lead responsibilities in the state.

The rural credit structure in the state consists of co-operatives, commercial banks and Regional Rural Banks, of the two major state finance lending institutions, the Karnataka State Financial Corporation (KSFC) supports industry and service sectors. Another state term lending institutions, namely, the Karnataka state Industrial Investment and Development Corporation (KSIIDC) undertakes promotion and development of medium and large scale industries in the state and act as a nodal agency to formulate proposals for implementation of infrastructure projects.

Keeping in view, the importance of institutional credit for economic development as also to stimulate credit flow to the desired sectors and areas, as per the available potential and priorities of the government, the National
Bank for Agriculture and Rural Development (NABARD) as an apex institution prepares the potential linked plans every year.

Apart from this, NABARD also brings out the State Focus Paper, which covers among other things agriculture and rural economy of the states, performance of rural credit delivery system, policy initiatives of union and state government and NABARD's involvement in supporting credit, development and supervisory functions. The State Focus Paper is discussed at length in the meeting of secretaries of various departments before pronouncing the credit policy initiatives for the states.

Branch Network:

From 755 bank branches at the time of nationalization in 1969, 4719 bank branches have been set till the end of March 2001, of which 3206 are located in rural and semi urban areas. At present, the share of rural branches in Karnataka is 47 percent as against 25 percent at the time of nationalization. There was a decline in the composition of rural and semi urban branches in the total branch network by 1 branch during the last year. Though the per branch population for the state as a whole is at a comfortable level of 11,821, in districts like Bidar, Gulburga, Raichur, Tumkur and Bangalore it is still beyond 15,000.
Deposits and Advances:

Deposits of Commercial banks (including Regional Rural Banks) stood at Rs. 48,792 crores as at the end of March 2001. Growth in deposits in during the year was 16.85 per cent. The level of deposits is expected to reach Rs. 64030 crores by March 2002. As of 31st March 2001, advances of commercial banks stood at Rs.29525 crores. Growth in advances during the year was 13.50 percent. The level of advances is expected to reach Rs. 34273 crores by March 2002. The credit deposit ratio of the state works out to 60.51 percent as against the Reserve Bank of India stipulation of 60 percent.

Priority sector advances of banks in the state amounted to Rs. 12,952 crores on 31st March 2001, which works out to 43.87 percent of total advances against the stipulated norm of 40 per cent. Direct agricultural advances in the state stood at Rs. 5574 crores (18.88 per cent of total advances), which was above the norms of 18 percent stipulated by the Reserve Bank of India. Weaker Section advances stood at Rs. 2618 crores which works out to be 8.87 percent of total advances as against the Reserve Bank of India stipulation of 10 percent. The level of weaker section advances has shown a decline compared to last year.

This is because the newly introduced swarnajayanti gram Swarojagar Yojana (SGSY) in the place of Integrated Rural Development Programme.
(IRDP) is yet to pick up momentum. While the per branch business for the state as a whole works out to be Rs. 16.60 crores, it was significantly lower at around Rs. 5.70 crores in rural branches. However, the country as a whole this ratio was Rs. 29.52 crores and rural branches Rs. 8.20 crores.

Credit disbursed in industrial and tertiary sectors in states during the year 2001, was of the order of Rs. 668 crores and Rs. 1203 crores respectively as against Rs. 694 crores and Rs. 1261 crores in the previous year. In current year upto the end of September 2002, credit disbursed in industrial and tertiary sectors in states were Rs. 200 crores and Rs. 386 crores respectively.

Progress Under The Rural Infrastructure Development Fund:

In 1995-96, six medium irrigation projects in five districts and 88 minor irrigation projects in 17 districts were considered for loan assistance form NABARD for Rs. 106.98 crores and 36.94 crores respectively. In 1996-97, Rs. 173 crores were sanctioned for construction of 126 bridges, strengthening and widening of 119 roads, three minor irrigation projects and one major irrigation projects. In 1997-98, Rs. 172.13 crores were sanctioned for the construction of 66 bridges, improvement of 428 roads and one minor irrigation work.
In 1998-99, Rs. 180.53 crores were sanctioned for construction of bridges, improvement of 459 roads and 20 minor irrigation works. In 1999-2000, Rs 175.51 crores were sanctioned for construction of 35 bridges, improvement of 326 roads, construction of 8 rural godowns and one minor irrigation work. Last year i.e., in 2000-01, Rs. 303.68 crores were sanctioned for improvement of 545 rural roads, constructional of 82 rural bridges.

During the current year, Rs. 210.34 crores have been sanctioned for improvement of 217 rural roads, construction of 42 rural bridges, 37 minor irrigation projects, 16 rural markets and for system improvement in 70 projects of KPTCL. The total loan sanctioned to the state so far under the scheme amounts to Rs. 1384 crores covering as many as 2683 projects in all.

**Micro Credit Delivery Innovations – Self Help Group (SHGs):**

Deposit vast expansion of formal rural credit system implementation of a series of anti-poverty programmes, majority of the rural folk still find themselves outside the credit delivery system and continue to depend on indigenous money lenders. Recognising this missing link, homogeneous groups known as self help group were formed for including the habit of thrift and credit operations, epitomizing the concept of self-help, during 1991-92 by NABARD, the apex financial institution.
Regional Rural Banks:

The Regional Rural Banks have come a long way since their inception in 1975 and have now become an integral part of rural financing system.15

At the end of March 2001, there were 1096 branches of 13 Regional Rural Banks covering all the districts in the state. Regional Rural Banks had mobilized Rs. 2432.39 crores of deposits at the end of March 2001 and advanced Rs. 1978.64 crores resulting in a credits deposit ratio of 81.35 per cent. Priority sector advances stood at Rs. 1528.67 crores (77.26 percent of total advances). Direct agricultural advances of Regional Rural Banks amounted to Rs. 991.42 crores (50.11 percent of total advances). There is marginal reduction in both credit – deposit ration and agricultural advances ratio compared to previous year owing to lower level of credit deployment on account of poor recovery of overdues.

The state government in accordance with the provisions of section (6) of RRB Act 1976, have contributed a sum of Rs. 195 lakh towards equity share to all the 13 RRBs. The state government have also infused financial support to these banks aggregating to Rs. 1751.52 lakh as at March 2001 towards their recapitalisation in accordance with the policy decision of the government of India, as part of reform measures to improve the
performance of Regional Rural Banks in the state. With this measure, seven out of thirteen RRBs could completely wipe out their losses.

**High Level Committee at central Level (HLCC):**

A high level committee on credit for Swarnajayanti Gram Swaraj Yojana, headed by the secretary, Department of Rural Development and including senior representatives from central and state Governments, commercial banks. NABARD and RBI have been constituted to consider the various problems arising from time to time in the course of implementation of the programme and review the credit arrangements to recommend changes and improvements as and when necessary.

**State Level Banker’s Committee (SLBC):**

State Level Banker’s Committee have also been set up for inter-institutional coordination and joint implementation of development programmes. The meetings of this committee are convened by the designated convenor bank. The agenda discussed by SLBC relate mainly to branch expansion, implementation of Annual Action Plan and District Credit Plans, Support from government agencies, inter-bank differences, problems raised at district consultative committee which require attention at state level.
District Level Consultative Committee (DLCC):

In Karwar District, a District Level Consultative Committee (DLCC) has been constituted under the chairmanship of the Chief Executive Officer of the Zilla Panchayat. All the banks and district level officers of the government, NABARD, District Rural Development Society are represented on this committee. This forum, should be utilized for allocating share of credit disbursement to various banks monitoring and reviewing the overall progress in physical and financial terms, ironing out inter-agency differences and to prepare items for consideration of State Level Committee.

Block Level Consultative Committee: (BLCC):

This committee has been constituted at the block level under the chairmanship of sub-division officer. Meeting is to be attended by Block Development Officer, Branch Managers of the Primary Land Development Bank, Tehsildar and Agriculture Project Officer (Credit). The project officer District Rural Development Society, the Lead Bank Officer and the Lead District Officers may attend the meetings as special invitees. This committee is working very effectively in Karwar Block. It meets regularly and follow-up measures are taken at regular intervals.
Block Level Bankers Committee (BLBC):

The Block Level Bankers Committee has been working in each block of Karwar District. All the banks operating in the block including District Central Co-operative Bank and Regional Rural Banks are members of the committee. The Block Development Officers in the block, Extension Officers for Agriculture, Industries and cooperatives will also act as its members. The chairman of the committee will be The Lead Bank Officer and he will also act as the convenor of the committee. It meets once in every six months, the financial matters including loan recovery etc., are discussed in the meeting and follow-up measures are taken-up at the meeting.

Financial Position of Karwar Zilla Panchayat:

Karwar Zilla Panchayat Funding i.e. its revenue structure comprises of only three items of importance. They are non-tax resources, grants from the central as well as state governments and revenue from local enterprises. The implication of such a reality is that the local self-government institutions depend upon governmental grants rather than on mobilizing their own financial resources. The revenue of the Karwar Zilla Panchayat is made up of government grants. The grants of Karwar Zilla Panchayat is shown in Table No. 4.1
Karwar Zilla Panchayat Grants By Central And State Governments:

Table No 4.1

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<th>Year</th>
<th>State Grant</th>
<th>Percent</th>
<th>Central Grant</th>
<th>Percent</th>
<th>Total (In Lakhs)</th>
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<td>1065</td>
<td>59.34</td>
<td>730</td>
<td>40.66</td>
<td>1795</td>
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<td>1991-92</td>
<td>1299</td>
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<td>1067</td>
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<td>1992-93</td>
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<td>57.10</td>
<td>1017</td>
<td>42.90</td>
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<tr>
<td>1993-94</td>
<td>1597</td>
<td>58.67</td>
<td>1125</td>
<td>41.33</td>
<td>2722</td>
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<td>1994-95</td>
<td>18.02</td>
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<td>1691</td>
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<td>2697</td>
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<td>2001-2002</td>
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<td>56.76</td>
<td>2677</td>
<td>43.24</td>
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The Table 4.1 Shows that, grants are given to local bodies particularly Zilla Panchayats for specified or development activities.
Government grants over the years, by state and central have been increased gradually. The state government during the years 1990-91, 1991-92, 1993-94, 1994-95, 1995-96, 1996-97 and 2001-02. The percentages are 59.34, 54.90, 57.10, 58.67, 59.55, 55.26 and 56.76 respectively, figures shows the lot of differences than central governments. In the year 1998-99 the sharing of central government is 51.03 which is highest of all the years also.

**Budgeting:**

Budgeting is an important element in the financial process of an organization. Budget is an administrative necessity as well as legal obligation under the Panchayat Act. It provides an opportunity to review the financial position and the activities to be performed by the zilla panchayat. Budgeting essentially involves matching or balancing the functions of an organization with the available financial resources. Hence, in the process of budgeting functions as well as finance both figure prominently and as such the effectiveness of the organization is mainly perceived in this basic process. Simplification has been recommended by various committees. Consequently the preparation of the budgets and their approval by the Samithis has become a ritual, rather than a rigorous exercise in maintaining financial prosperity.
In the Zilla panchayat, the budget is formulated by the Finance and Audit Committee. The budgeting process begins by August-September with the state government indicating the proposed grant to the district. The finance committee along with the state level officers discuss and deliberate on estimates of the budget. The various district level officers intimate their requirements for the coming year. The chairman of the Finance Committee Coordinates and ultimately decides the budget for each department and sector under the zilla panchayat.

The Finance Committee Prepares the budget and it submits to the Zilla Panchayat for its approval. The zilla panchayat there upon decides the nature and quantum of appropriations and the ways and means contained in the budget.

Later, the approved budget is sent to the state government for its concurrence. In case the zilla panchayat fails to approve the budget, before the prescribed period the chief secretary forwards the same to the government for its approval with or without modification. The budget so approved by the government shall be demand to have been approved by the zilla panchayat.

**Accounting:**

The system of accounting is a vital aspect of financing administration since the efficiency of fiscal administration to a large extent depends on the
system of accounting. In regard to accounting procedures, the recommendations of santhanam and Ramkrishnayya Committee lay down different procedures. The Santharam Committee, for instance, would like panchayat accounts to have both 'debit' and 'credit' sides and also a mention of the cumulative value of the community assets as is done in the budgets of commercial establishments. Where as annual accounts of receipts and expenditure over various heads by the panchayati raj bodies. The Santharam Committee desires it a weekly basis.

The receipts are compiled for each month on major, minor and subhead wise categories in the same process, the progressive total or cumulative total for the proceeding month is totaled and tallied. In classified abstracts of receipt the month wise plan and non-plan amount is taken into consideration. In this compilation receipts are compiled on the basis of head of account as prescribed in the budget estimates. Here too the cumulative total or progressive total is calculated for the preceding month.

As regards the expenditure, two types of accounts are maintained. One is major, minor and sub-head wise compilation of accounts for each month and cumulating the total for the preceding months. In the classified abstracts of expenditure, the expenditure on non-plan and schemes is compiled on the basis of head of accounts and the budget grants, for each month a total is made and progressive total for the preceding month is calculated.
The consolidated abstract of receipts and expenditure is prepared on the basis of head of accounts, the budget grant provided and month wise expenditure cumulating it till the last month of financial year, the Register of cheques maintained for the cheques issued by the authorized departmental officers as per the treasury schedule. This is maintained in order to know the expenditures made through the issue of cheques.

In order to maintain the accounts on a sound footing, a professional Accountant in Government finance is appointed as the chief accounts officer and the account officer also performs the duties of auditor. He along with his team audits the financial transactions of the various departments under the control of the zilla panchayat. In performing these roles, the chief accounts officer has been assigned numerous functions and duties.

**Auditing:**

Auditing is another facet of financial administration which conducts post-mortem of the financial transaction of an organization the common impression is that in Panchayati Raj Institutions accounting and auditing are far from satisfactory. Audit is the instrument through which control and supervision is exercised, deficiency located and loopholes plugged to ensure soundness all round. The audit is primarily concerned with the honesty and legality of local transaction and the accuracy of accounts. Hence, the independence of audit, Another facet of auditing is that pre-audit is an executive responsibility, while post-audit is a legislative responsibility.
The main object of auditing of accounts is to ensure proper utilisation of funds, identify difficulties and irregularities, offer solutions and suggestions and above all to serve as an authentic unit. In Karwar zilla panchayat area, two systems of auditing are followed. Firstly, there is an internal audit of accounts of various departments of the zilla panchayat. This is done by the chief accounts officer or his representatives. Secondly, the accountant general audits the zilla panchayat accounts every year. The chief accounts officer is responsible for internal audit. He also assists the departments working under the zilla panchayat in processing and settling the audit objections. In Karwar zilla panchayat so far auditing by the accountant general has not been done whereas the internal auditing is initiated only this year.

**Role Of Grameen Banks In Karwar District:**

Grameen Banks play a vital role in implementation of the rural development programmes. They were set up with a view to developing rural economy for the purpose of development of agriculture, trade, commerce, industry and other activities in the rural areas.

In Karwar district, we have Varada Grameen Bank and Lead Bank like, Canara, Vijaya and Urban Banks. They cater to the needs of Rural Development Programmes beneficiaries. The role of these banks are indeed crucial in regard to rural upliftment programmes.
Notes And References:


5. *INDIA 2002* (New Delhi, Government Of India, Ministry Of Information And Broadcastings, Research, Reference And Training Division ), p.313.


17. Ibid. p.18.
22. Iqbal Narian (Ed) : Panchayat Raj Administration In Rajasthan, Agra, Laxminarayan Agrawal, 1995) p.48