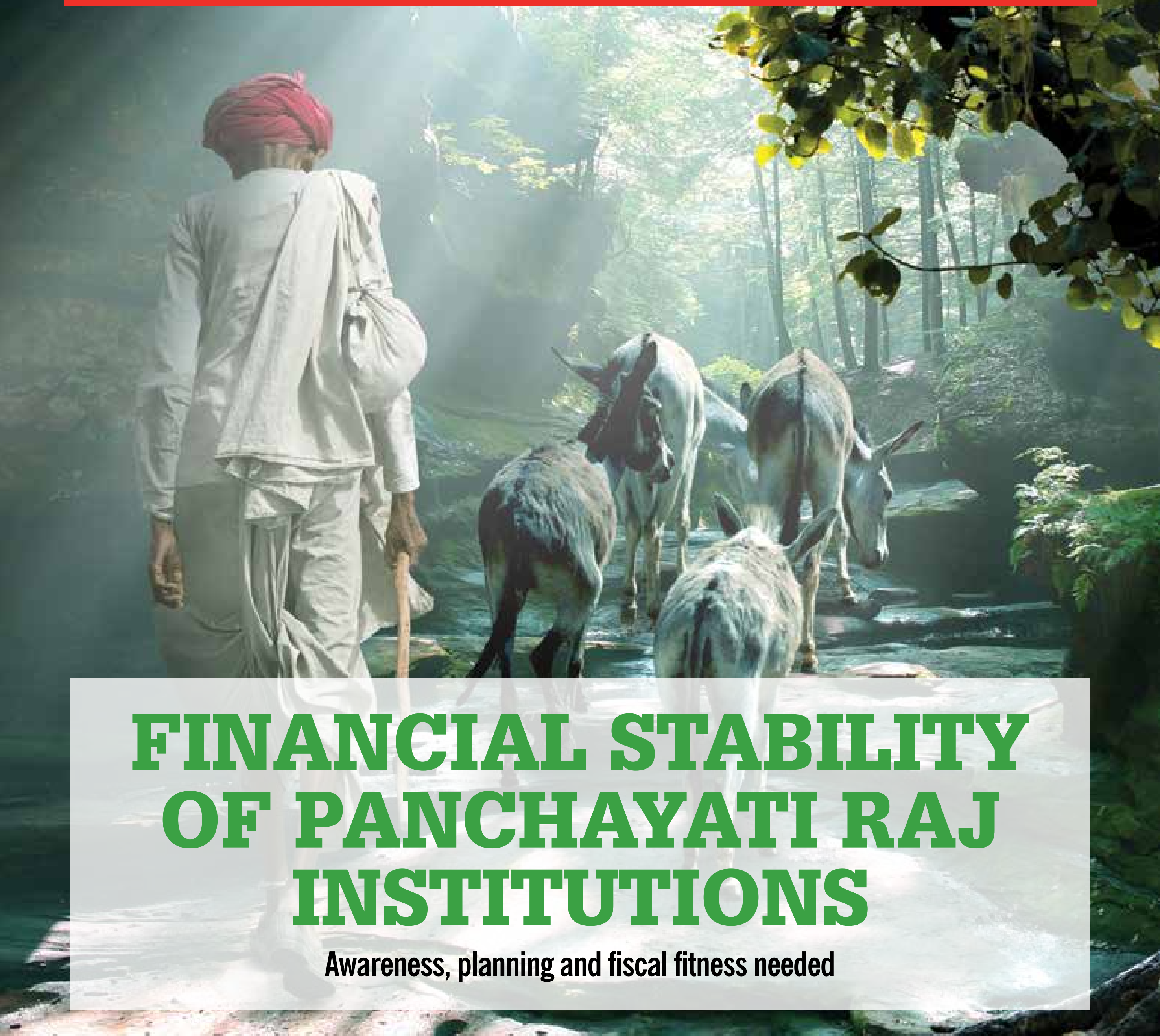
SPECIAL FOCUS INSIDE

55TH NATIONAL COST CONVENTION 2014

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

DECEMBER 2013 VOL 48 NO. 12 ₹60



FINANCIAL STABILITY OF PANCHAYATI RAJ INSTITUTIONS

Awareness, planning and fiscal fitness needed

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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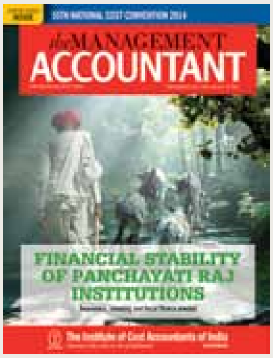

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The Institute of Cost Accountants of India

The Institute of Cost Accountants of India (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

VISION STATEMENT

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views of the Institute and therefore should not be attributed to it.

Behind every successful business decision, there is always a CMA

FROM THE EDITOR'S DESK

Greetings!

Panchayats are symbols of decentralization, governance and grassroots democracy. The involvement of the people at the grassroots level is the most important means of bringing about socio-economic development. Panchayati Raj is identified as institutional expression of democratic decentralization in India.

The Balwant Rai Mehta Committee recommended the establishment of the scheme of 'democratic decentralization' which finally came to be known as Panchayati Raj. On 24 April 1993, the Constitutional Act, 1992 with the 73rd Amendment came into force to provide constitutional status to Panchayati Raj institutions. The three-tier system of Panchayati Raj consisted of Zilla Parishad, Panchayat Samiti and Gram Panchayat.

As per the Constitution, PRIs are responsible for preparing plans for economic development and social justice in their respective areas and executing the plans. PRIs also have to promote the participation of the people and oversee the effective implementation of various developmental programmes in the rural areas.

The Eleventh Finance Commission (EFC) had recommended that the C&AG must exercise control and supervision over maintenance of accounts of all the three tiers of PRIs. Based on the recommendations of the Eleventh Finance Commission, C&AG prescribed the formats for the preparation of budget and accounts and database on the finances of PRIs in 2002.These formats were further simplified in 2007 for easy adoption at the grassroots level. In 2009, the C&AG and MOPR, GOI recommended the Model Accounting Structure for PRIs.

CMAs have a great role to play in this field

- The PRIs are largely dependent on assistance from the Central and State Governments; their budgets are often prepared to comply with statutory requirements and not used as a tool for financial control for long-term planning. PRIs need some professional experts who can guide them properly. CMAs can act as consultants with their professional knowledge and expertise. They can help PRIs to manage their fund and to prepare financial budgets.
- While legislation provides for a tight set of internal controls on the utilization of PRI resources, these controls have not managed to curb thousands of reported frauds and embezzlements. The accounting practices adopted by the Panchayats have not kept pace with the increased and diversified flow of resources entrusted to them. CMAs can play a big role to build an efficient internal control system through internal audit.
- PRIs need to maintain proper fund flow management as well as proper assets management. In this area, CMAs can act as professional fund managers for PRIs.
- Financial reports (receipts and payments statements, statement of assets) are regularly prepared and presented to the General Assembly and to the respective authorities. In this area CMAs can play a big role as professional accountants.
- To determine and evaluate the performance and activities of PRIs, proper appraisal and evaluation of the performance are very important. In this too, CMAs can play a key role.

This issue has a quite a good number of articles by distinguished experts and authors on 'Financial stability of Panchayati Raj Institutions (PRIs)', the cover story theme of this issue. A new section, 'Letters to the Editor' that started a few issues ago, continues. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all contributors for this important issue and hope our readers enjoy the articles.

Making nation cost competitive is the CMA's most important responsibility

CMA Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

It is better to perform one's own duties imperfectly than to master the duties of another. By fulfilling the obligations he is born with, a person never comes to grief. – Bhagwad Gita

IN the wake of the Draft Companies (Cost Records and Cost Audit) Rules, 2013 notified by the Ministry of Corporate Affairs, Government of India on 21st November, 2013 U/s 148 of the Companies Act, 2013, there is genuine concern amongst members of our CMA fraternity that the notification has curtailed the scope of the professionals to contribute its mite to ensure sustenance and growth of the economy under a global competitive environment. The larger aim of any mandated legislation is to serve the country's public purpose. The role of a professional institute's and that of it's members under the legislation is defined by the purpose for which it has been established under their own Act and Regulations. For us it is making the nation cost competitive within the framework of business and economic environment of the country, through the cost accounting system within a corporate entity.

The council expresses its deep concern and feels that the Draft Rules on Cost Records and Cost Audit do not address the basic objective of inculcating cost competitiveness across all sectors as enshrined in the relevant provisions of the earlier Companies Act, 1956, which has been reiterated by the Honorable Parliament and Standing Committee on Finance on several occasions. The Council is very much concerned and will leave no stone unturned to impress upon the Government, to protect the interest of the economy and stakeholders and provide a due value added role to the profession.

To take this challenge head on, the Council has formed a Task Force which has worked out an action plan, based on constructive suggestions received from various forums. Let us all join in sharing our wisdom and express our valued opinion by providing constructive suggestion so as to impress upon the Ministry in continuing with the existing cost accounting records and cost audit system, which is clearly designed to enable cost competitiveness. Ever since its inception, CMAs have been tried and tested on several occasions and have proved their mettle through intelligence and proper representation.

The Task Force has been formed to advise on providing suggestions on the Draft Rules and the Council is presently working to achieve the common goal and has escalated the matter at various levels, besides continuing to make proper representation to various stakeholders/authorities for their consideration and issuance of appropriate communication to Ministry of Corporate Affairs, Government of India to restore the existing Rules to make Indian industries competitive and sustainable.

I sincerely urge your technical support to further the socio-economic and national interest besides extending wide professional opportunity to our members to serve the economy. Let us all concentrate in making appropriate suggestions with justification to the Ministry within stipulated time with a copy to the Institute (to draftcostrules@icmai.in) to strengthen and support the efforts of the Council on Draft Rules.

At the same time, it is also an opportunity to relook into the activities of our Institute right up to the Region and Chapter levels and refocus our efforts in making the cost and management accounting system tools spread across business entities from the small onwards, in collaboration with industry associations.

55th National Cost Convention – 2014

You are kindly aware that the Institute is organizing 55th National Cost Convention – 2014 on the theme "Nation Building through Cost Competitiveness and Responsible Governance" at Hotel Mayfair Lagoon, Bhubaneswar, the temple city of Odisha, during 17th – 18th January, 2014. Convention brochure including details of the Program with relevant forms is available in the website of the Institute.

The term competitiveness is interpreted in many ways aimed at the sustainability and growth of any business entity, be it in technology, quality, business process, market share or customer orientation. Cost competitiveness subsumes all of those as it examines the long-term growth and sustainability of the business model. It takes into account the business, economic, legal, governance and ethical environment of the business.

The drive to emerge as a winner by any means has entangled many a corporate into scams which have been result of unbridled greed for short term wealth generation, sacrificing the governance and control aspects at its alter. This has resulted in Government, Regulators and Professional institutes stepping in to stem the tide and introduce tight legislation and stricter control, which add to compliance costs, but are essential for protecting the public interest.

As Cost and Management Accountants it is vital for the profession, to build the cost competitiveness as a solid foundation built on responsible governance as envisaged in the Companies Act, 2013. Although we CMAs are "behind every successful business decision", it is imperative for us to have a 360 degree vision to ensure that the governance and ethical best practices are kept sight of, while inculcating cost competitiveness. Therefore,

The technical sessions will deliberate on: Cost Competitiveness for Inclusive Growth (CEO Forum), Transition from Regulatory to Affirmative Corporate Action, Professional Perspective – Response to the Emerging Challenges and Opportunities, Energizing MSMEs for Sustained Economic Development, Government Perspective – Tax & Expenditure Management, Service Sector as a Key Enabler for Sustainable Growth and CMA Growth Perspective (CFO Forum).

"

LET US ALL JOIN IN SHARING OUR WISDOM AND EXPRESS OUR VALUED OPINION BY PROVIDING CONSTRUCTIVE SUGGESTIONS SO AS TO IMPRESS UPON THE MINISTRY IN CONTINUING WITH THE EXISTING COST ACCOUNTING RECORDS AND COST AUDIT SYSTEM, WHICH IS CLEARLY DESIGNED FOR ENABLING COST COMPETITIVENESS. EVER SINCE ITS INCEPTION, CMAs HAVE BEEN TRIED AND TESTED ON SEVERAL OCCASIONS AND HAVE PROVED THEIR METTLE THROUGH INTELLIGENCE AND PROPER REPRESENTATION

We extend a hearty and warm welcome to you to attend and participate in the Convention and request your kind support for sponsoring one of the items of the Convention, releasing an Advertisement in Convention Souvenir and nominating adequate number of delegates to the convention. While appreciating your continued support to this profession, we look forward for your kind cooperation and guidance for making the convention a grand success.

COMPETITIVENESS IS INTERPRETED IN MANY WAYS AIMED AT THE SUSTAINABILITY AND GROWTH OF ANY BUSINESS ENTITY, BE IT IN TECHNOLOGY, QUALITY, BUSINESS PROCESSES, MARKET SHARE OR CUSTOMER ORIENTATION. COST COMPETITIVENESS SUBSUMES ALL OF THOSE AS IT EXAMINES THE LONG-TERM GROWTH AND SUSTAINABILITY OF THE BUSINESS MODEL

Meeting with CMD, IDBI

I had the opportunity to met Shri M.S.Raghavan, Chairman & Managing Director of IDBI Bank Limited at Kolkata and discussed various areas where the CMAs' could contribute to the performance improvements and sustainability of Banking Industry.

CII-TCM Cost Congress 2013

The Institute was associated with Confederation of Indian Industry as a Knowledge Partner for the 12th Edition of Cost Congress 2013 organized during 27th to 28th November 2013 at New Delhi on the theme 'De-risking value creation through innovation in Total Cost Management.' I had the opportunity to express the "Closing Remarks" in the Valedictory session of the Conference.

SMEs Excellence Award, 2013

The Institute in association with the Associated Chambers of Commerce & Industry of India (ASSOCHAM) has started SMEs Excellence Award, 2013 to propagate the best practices in cost management and to promote SMEs towards sustainable growth. The Awards will be distributed in the Seminar on SMEs "The Growth Drivers of the Economy" on 6th December, 2013 at Hotel The Park, New Delhi by Shri K.H. Muniyappa, Hon'ble Minister of State (I/C) for MSME, Government of India.

Research Directorate

The Institute in association with the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and with the support of Kolkata Port Trust organized a summit "Doors to the Shores – The Logistic Issues" on 8 November, 2013 at Taj Bengal, Kolkata. The Research team of the Institute published a Knowledge Study on the subject. Eminent dignitaries from the industry and profession attended the event.

Technical Directorate

I am happy to inform that the Cost Accounting Standards Board has recommended Cost Accounting Standard on Joint Costs (CAS 19) to the Council for approval and release. Guidance Note on Cost Accounting Standard on Repairs and Maintenance (CAS 12) has been circulated to the members of the CASB for suggestions / value additions. I am happy to mention that the representation from sister bodies of SAARC Countries has been sought to be Permanent Invitee (s) as observer (s) to the CASB to propagate Cost Accounting Standards in the Region and the representation from ICMAB and Sri Lanka has already been received.

CPD Programmes Directorate

The Institute was associated with ISACA India as a "supporting organization" for the Conference on 'IT Governance, Risk Management and Compliance' held at Chennai during 27th to 29th November 2013.

It is heartening to mention that there is adequate response on the webinars organized by the Institute during the month on Companies Act 2013 on the theme 'Overview, New Concepts & Role of Independent Directors' and 'General Anti Avoidance Rule – Emerging Corporate Tax Discipline: Marking Presence of CMA'.

I am pleased to inform that during the month, the Regional Councils and Chapters organized many programs, seminars and discussions for the members on the contemporary subjects such as Drug Prices Control Order 2013, Recent Changes in Service Tax, Cost Accounting Standard-4, Doors to the Shores-The Logistic Issues, Tendering & Contracting with Public Fund, "Enhancing the Vision - Imperatives for Management Accountant of the modern era" with special reference to happenings in global finance, Impact of Indirect Taxation on Manufacturing Industries and so on.

ICWAI Marf Programmes

The program on 'Contracts and their Management' organized at Goa during 22-25 October, 2013, was attended by senior level and Middle level Officers from different organizations.

The programme on 'Recent Trends in Financial Management' organized at Goa during 22-25 October, 2013, was attended by senior level and Middle level Officers from different organizations. A program was organized for Central Warehousing Corporation on 'Contracts Management' during 29th October, 2013 to 31st October, 2013 at CWC Corporate Office, New Delhi.

Membership Department

The membership fee for the Financial Year 2013-14 became due on 1st April, 2013 and the last date expired on 30th September, 2013. To comply with the provisions of Regulation 7 (6) of the Cost and Works Accountants Regulations, 1959, members who have not paid their dues for the year 2013-14 within 30th September, 2013 have been issued notice on 7th October, 2013 for payment of the fees for 2013-14 within 45 days of receipt of the notice. I sincerely request the honorable members to kindly clear their dues within the allowed time to continue their names in the Register of Members of the Institute and provide their support for growth of the profession.

Advanced Studies Department

The Diploma courses on Business Valuation and Information Systems Audit has been approved by the Council for the members. I sincerely look forward for adequate response from the learned members for value addition to their professional career and contribution to the soceity.

CAT Directorate

I am happy to inform that the first ever On-Line Self Study and Assessment Module for CAT students has been launched. This module will enable the students to practice the subjects taught in the class room by logging to the web site of the Institute at their own convenience. I am confident that this mode will go a long way in providing a latest tool in the hands of the students to develop their skill. It is heartening to mention that the CAT Course introduced as part of Government of Kerala's Additional Skill Acquisition Programme (ASAP) has been well received by the students. I sincerely acknowledge the leadership efforts by CMA H Padmanabhan, Vice Chairman, SIRC to make the CAT course a reality in Kerala.

International affairs

The Institute was represented by CMA Sanjay Gupta and CMA (Dr.) PVS Jagan Mohan Rao, Council Members in United Nations Conference on Trade and Development (UNCTAD) 30th session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at Geneva from 6-8 November 2013.

The Institute has taken the Institutional Membership of the Commonwealth Association of Accountants (CAA). The launch function of CAA was attended by CMA TCA Srinivasa Prasad, CCM on behalf of the Institute at Colombo on 8th November 2013.

The CAPA and SAFA events were organized at Kolkata for the first time and the Institute representatives attended CAPA & SAFA Committee meetings and Board meetings during the period 19th November to 23rd November,2013.

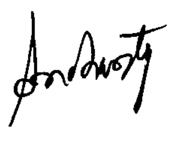
Having invited, I had the opportunity to make a presentation on "Expanding Trade through Innovation and Digital Economy" in the International Conference organized by Institute of Chartered Accountants of India at Kolkata.

Prof Lakshman R Watawala, President, The Institute of Certified Management Accountants of Sri Lanka visited the Headquarters of the Institute, Kolkata. I along with Vice-President and my Council colleagues and officials of the Institute held discussions on matters of mutual professional interest.

As the December 2013 term examinations are round the corner, I hope the students/prospective examinees are engaged in shaping their knowledge further in this penultimate period. My best wishes to you all. May God blessings shower on each one of you to maintain good health, imbibe right spirit to develop proper acumen to be a responsible citizen and one of the proud torch bearers of this CMA profession.

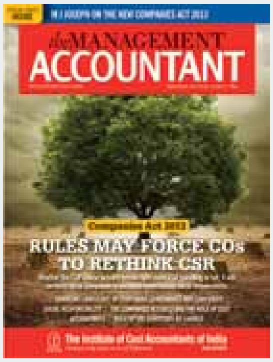
I wish all the members and their families and other stakeholders Merry Christmas and a very happy and prosperous New Year, 2014.

With warm regards,



(CMA Suresh Chandra Mohanty)
1st December 2013

LETTERS TO THE EDITOR



In one of the cover stories in the November issue in respect of CSR, the author has correctly pointed out that while non-compliance of the CSR requirements will not be penalized under the new Companies Act, companies need to disclose reasons for that which makes it de facto mandatory. The rationale behind CSR could be that corporates earn their profit by exploiting various resources of the society, and so a portion of the benefit derived by them should be channeled for the betterment of society. Possibly this had be forced on the companies in the form of a law hurting the conscience and ego of some of them because the present picture on CSR is not that encouraging. In a recent survey by Deloitte India on CSR on 91 Indian companies, it has come to light that only 27% of them spend more than or equal to 2% of their net profit on CSR and as much as 36% spend less than 1% of the net profit. The rest are in between. Their emphasis is on education followed by environment, but the areas where the present Act wants to emphasize such as eradicating extreme hunger and poverty, promoting gender equality and empowering women, reducing child mortality and improving maternal health are pathetically missing from the list. I think CSR spending should be made in such a manner that it helps create a self-sustaining model and the target group can carry it forward even if further support do not come in the future.

CMA Sankar Majumdar, Guwahati

The November 2013 issue of the journal *The Management Accountant* was wonderfully produced. From the layout to contents, I see a sea change in the quality. My best wishes to your team. Also, please ensure that the journal reaches all institutions of higher studies, in the fields of finance, economics and management.

CMA M. Gopalakrishnan

The journal is an amazing experience. It enriches and updates our knowledge and also makes us think on various aspects of management.

I am eager to know more about the Center of Excellence which I read in the President's Communique: about its activities and how members, professionals and corporates can make best use of them.

CMA Prashant Dahivalkar

Benevolent Fund for members of The Institute of Cost & Works Accountants of India

The Benevolent Fund for the members of the Institute of Cost and Works Accountants of India was instituted with an objective of extending financial assistance to its members and families at the time of distress and death.

We, therefore, appeal to all the members of our Institute to become Life Members of our Benevolent Fund. The members and others are requested to donate generously for the noble cause. The donations to the Fund are exempted under Section 80G of the Income Tax Act, 1961.

For details, please visit our website www.icmai.in.

Attention Members: Payment of membership dues

Members, please note that Regulations 7(6) & 7(7) of the Cost and Works Accountants Regulations, 1959 read:

Regulation 7(6) – For non-payment of annual membership fee within six months from the date on which it becomes due, the name of the defaulting member shall be removed from the Register of Members with a prior notice to the defaulting member clearly stipulating therein that his name will be removed from the Register of Members if he does not pay the fee within forty-five days of the receipt of that notice.

Regulation 7(7) – On removal of the name of a member under clause (6), he shall not be entitled to use the descriptive letters 'ACMA' or 'FCMA' as the case may be.

Members are therefore, requested to make payment of their membership fee for FY 2013-14 immediately.

ICAI-CMA SNAPSHOTS

1. CMA Suresh Chandra Mohanty, President of the Institute at the Cost Congress 2013 held on 27th - 28th November, 2013 in New Delhi

2. CMA S C Mohanty, President, Shri D S Rawat, Secretary General Assocham, Shri Atul Dhawan, Partner at Deloitte, Ms. Preeti Malhotra, Chairperson, Assocham National Council for Corporate Affairs , Ms. Renuka Kumar, Joint Secretary, Ministry of Corporate Affairs, Shri G P Madaan, Co-Chairperson, Assocham National Council for M & A, at the National Conference of Companies Act – 2013

3. CMA S C Mohanty, President of the Institute and other dignitaries during the lamp lighting ceremony at the National Conference of Companies Act - 2013

4. CMA P V Bhattad, Central Council Member at the CAPA Board meeting with other dignitaries held at Hyatt Regency, Kolkata on 19th and 20th November 2013

ICAI-CMA SNAPSHOTS

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5. CMA S C Mohanty, President together with the Central Council Members of the Institute, welcoming Prof. Lakshman R Watawala, President of the Institute of Certified Management Accountants of Sri Lanka, on his arrival at the Institute's Headquarters in Kolkata

6. CMA Manas Kumar Thakur, Central Council Member, CMA Pallab Bhattacharya, Vice Chairman EIRC, with other dignitaries at the workshop on VAT, TDS & CST, jointly organized by CII and the Institute in Haldia on 12th November, 2013

7.CMA Manas Kumar Thakur, Council Member and CMA Dr. Asish K Bhattacharyya, Advisor, Advanced studies directorate of the Institute and Professor & Head, School of Corporate Governance & Public Policy, IICA with the participants for a programme organized by the Advanced studies directorate of the Institute at Hotel Hindustan International during 15th – 16th November 2013

ICAI-CMA SNAPSHOTS


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8. CMA S C Mohanty, President together with the Central Council Members of the Institute, presenting a memento to Prof. Lakshman R Watawala, President of the Institute of Certified Management Accountants of Sri Lanka, on his arrival at the Institute's Headquarters in Kolkata

9. CMA S C Mohanty, President and CMA Dr. A. S. Durga Prasad, Vice President of the Institute with CA. Subodh Kr. Agrawal, President of the Institute of Chartered Accountants of India and CS S.N. Ananthasubramanian, President of the Institute of Company Secretaries of India at the Institute Headquarters at the ICAI (CMA)-ICAI-ICSI Co-ordination Committee meeting on 23rd November, 2013 in Kolkata

10. CA. Subodh Kr. Agrawal, President of the Institute of Chartered Accountants of India and CS S.N. Ananthasubramanian, President of the Institute of Company Secretaries of India with CMA S C Mohanty, President and CMA Dr. A. S. Durga Prasad, Vice President, CMA T C A Srinivasa Prasad, CMA Aruna Vilas Soman, Central Council Members, CMA Kaushik Banerjee Secretary (Acting) of the Institute, together with other dignitaries of the two Institutes, at the Institute Headquarters during the ICAI (CMA)-ICAI-ICSI Co-ordination Committee meeting held on 23rd November, 2013 in Kolkata

ICAI-CMA SNAPSHOTS

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11. Shri Manish Jain(IAS), Deputy Chairman Kolkata Port Trust, Haldia lighting the Inaugaral Lamp at the Summit on 'Doors to the Shores The Logistic Issues' on 8th November, 2013 at Taj Bengal Kolkata. Also seen in the picture CMA Manas Kumar Thakur, Council Member, Shri Debmalya Banerjee, Regional Director, Assocham, Shri Sunil Kanoria, Vice Chairman, SREI Infrastructure Finance Ltd & incoming President of Assocham, Shri S.N Nundy, Co-Chairman, Eastern Region Development Council, Assocham, Shri I Jeyakumar (IRTS) Deputy Chairman, Kolkata Port Trust, Shri Abyokta Kr. Sarma, Deputy Commissioner of Customs (Ports).

12. CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal committee delivering his speech at the Summit "Doors to Shores-The logistic Issues", on 8th November, 2013 at Taj Bengal Kolkata.

13. Release of the Knowledge paper 'Doors to Shores - The logistic Issues' by the dignitaries on 8th November, 2013 at Taj Bengal, Kolkata. Event organized jointly by Assocham and the Institute of Cost Accountants of India

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PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the forthcoming months of January, February, March and April 2014

Issue months	Themes	Subtopics
January 2014	Strategic Cost Management in Banking and Insurance	• Management of Risk • Mechanism of Corporate Debt Restructuring • NPA management • Cost Competitiveness • Strategic cost management as a driver of Efficiency and Profitability • Public vs. Private sector
February 2014	Economics of the Power Sector	• Microeconomics of power sector • Cost viability • Tariff mechanism • Subsidy mechanism • Funding of power infrastructure • PPP Model
March 2014	Strategic Cost Management in Transport and Logistics	• Ownership of Infrastructure • Freight transport and containerization • Multimodal transport operation • Cost efficiency • Transport costing • Transport economics and forecasting • PPP Model
April 2014	Cost Management in the Education sector	• Performance Management System • Regulatory aspects of education in India and abroad • Public vs. Private Education system • Cost effectiveness as a strategic priority • Equity of access to quality education • Pricing Mechanism • Governance and Management

The above subtopics are only suggestive and hence the articles may not be limited to them only.
Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in by the 1st of the previous month.

Directorate of Research, Innovation & Journal
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ECONOMY UPDATES

Banking

- Foreign Direct Investment (FDI) in India – definition of 'group company' – Notification- RBI/2013-14/356 A.P. (DIR Series) Circular No.68 *(Nov 01, 2013)*
- Investment portfolio of UCBs - Classification, Valuation and Provisioning - Notification -RBI/2013-14/357 UBD.BPD.(PCB)CIR No. 36/16.20.000/2013-14 *(Nov 1, 2013)*
- Formation of seven new districts in the State of Gujarat - Assignment of Lead Bank Responsibility – Notification- RBI/2013-14/358 RPCD.CO.LBS.BC.No. 53 /02.08.001/2013-14 *(Nov 6, 2013)*
- Formation of a new district in the State of Madhya Pradesh - Assignment of Lead Bank Responsibility - Notification- RBI/2013-14/360RPCD.CO.LBS.BC.No. 54 /02.08.001/2013-14 *(Nov 6, 2013)*
- Migration of Post-dated cheques (PDC)/ Equated Monthly Installment (EMI) Cheques to Electronic Clearing Service (Debit) - Notification- RBI/2013-14/359 DNBS.PD/ CC.NO.359 /03.10.001/2013-14 *(Nov 6, 2013)*
- Timely Issue of TDS Certificate to Customers - Notification- RBI/2013-14/361DBOD.No.Leg. BC.65/09.07.005/2013-14 *(Nov 6, 2013)*
- Amendment to the "Issue of Foreign Currency Convertible Bonds and Ordinary shares (Through Depository Receipt Mechanism) Scheme, 1993" - Notification- RBI/2013-14/363 A.P. (DIR Series) Circular No. 69 *(Nov 8, 2013)*
- Advance Remittance for Import of Rough Diamonds (Modified - RBI/2013-14/365 A. P. (DIR Series) Circular No.71 *(Nov 8, 2013)*
- White Label ATMs (WLAs) in India – Clarification on Cash Handling - Notification- RBI/2013-14/372 DPSS. CO.PD. No. 1088/02.10.003/2013-14 *(Nov 14, 2013)*
- Restructuring of SGSY as National Rural Livelihoods Mission (NRLM) – Aajeevika- Interest Subvention Scheme - Notification- RBI/2013-14/373RPCD. GSSD.CO.BC.No 57/09.01.03/2013-14 *(Nov 19, 2013)*

Income Tax

- Cyprus notified as a Notified Jurisdictional Area for the purposes of International Transaction under section 94A of the Income-Tax Act, 1961 vide Notification No. 86/2013- Income Tax *(Nov 1, 2013)*
- Deductions u/s 80G of the Income Tax Act 1961- Donations to certain funds, charitable institutions, etc. - In exercise of the powers conferred by clause (c) of sub-section (2) of Section 80G of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby specifies 'Archery Association of India', New Delhi as an association for the purposes of deductions u/s 80G for the assessment years 2013-14, 2014-15 and 2015-16 provided that the conditions specified in said rule18AAAAA shall remain fulfilled vide Notification No. 88/2013- Income Tax *(Nov 6, 2013)*

Central Excise

- Central Excise (Second Amendment) Rules, 2013 amends Central Excise Rules, 2002 which reduces threshold limit for mandatory e-payment of Central Excise duty to Rupees One lakh vide Notification Central Excise - CE (NT) - 15/2013 *(Nov 22, 2013)*.
- As per Notification - Central Excise - CE (NT) - 14/2013 of *Nov 22, 2013*, Central Government makes rules to further amend the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 where whole or part of the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles, the value of such goods that are consumed shall be one hundred and ten per cent of the cost of production or manufacture of such goods."

Customs

- Notification - Customs - ADD - 30/2013, of *Nov 13, 2013* seeks to levy definitive anti-dumping duty on imports of 'Vitamin A Palmitate ', originating in, or exported from, Switzerland and People's Republic of China for a further period of five years

Service Tax

- Amendment of rule 6 (2) of the Service Tax Rules, 1994 so as to lower the threshold for e-payment from Rs 10 lakh to Rs 1 lakh vide Notification -16/2013-ST *(Nov 22, 2013)*
- As per Notification No. 15/ 2013-Service Tax of *Nov 21, 2013*, SEZ Unit or the Developer shall furnish to the jurisdictional Superintendent of Central Excise a quarterly statement, in Form A-3, furnishing the details of specified services received by it without payment of service tax, by 30th of the month following the particular quarter: Provided that for the quarter of July, 2013 to September, 2013, the said statement shall be furnished by the 15th of December, 2013.

Foreign Trade

- As per Notification No 49 (RE-2013)/2009-2014, of *Nov 1, 2013*, export of onion for the item description at Serial Number 51 & 52 of Schedule 2 of ITC (HS) Classification of Export & Import Items shall be permitted subject to a Minimum Export Price (MEP) of US$ 1150 per Metric Ton.
- Export of Kerosene and LPG to Nepal & Bhutan by Indian Oil Corporation has been exempted from the requirement of NOC from Ministry of Petroleum & Natural Gas vide Notification No 50 (RE – 2013)/2009-2014, (*Nov 11, 2013)*

- Certain items which are prohibited for export may be allowed for export under advance authorization scheme, subject to stipulated conditions. BOA can consider requests for export of a prohibited item from an EOU vide Notification No. 51 (RE – 2013)/2009-2014 (*Nov 14, 2013)*
- An exporter can seek registration of upto 50,000 MTs of sugar vide Policy Circular No. 10 (RE-2013)/2009-14 (*Nov 12, 2013)*

VAT

- Filing of online return for 2nd quarter of 2013-14 – extension of period thereof.
- Notification - VAT - Delhi - 26/2013-14 (*Nov 20, 2013)*
- In continuation to Notification No.F.7 (420)/Policy/VAT/2011/1203-1213 of *Feb 11, 2013* regarding filing of Audit report by dealers having turnover of Rs.10 crore or more during 2011-12 or 2012-13 in Form AR-1 vide Notification - VAT - Delhi - DVAT - F.3(384)/Policy/VAT/2013/985-996 - 14-11-2013.

SEZ

- Uniform list of services to be followed in SEZs – Circular 79 (*Nov 19, 2013)*

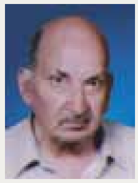
Indian Economy

- Cut imports, revive infra investment to restore growth: Assocham
  New Delhi, Sunday November 24, 2013
- Finance Ministry for relaxation of norms for loans to infra sector
  New Delhi, Sunday November 24, 2013
- India likely registered GDP growth rate in Q2 FY14 of 4.5 pct, says D&B
  New Delhi, Friday November 22, 2013
- Super rich: Young China outshines India, US has oldest billionaires, says report
  New Delhi, Tuesday November 19 2013
  At 53 years, China's billionaires are the youngest in the world, while the average age of India's super rich people is 63 years, a year older than the global average of 62, says a report.
- UBS downgrades India to 'neutral', upgrades China on reforms
  Mumbai, Monday November 18, 2013
- Inflation eroding savings of Indians living in metros: Survey
  New Delhi, Sunday November 17, 2013
- India pushes to develop money markets
  Mumbai, Nov 18, 2013
- India's GDP growth rate seen between 5-5.5 per cent in 2013-14: P. Chidambaram
  Mumbai, Friday November 15, 2013
- Inflation reaction: Supply hurdles must be removed to contain price rise, says India Inc
  New Delhi, Thursday November 14, 2013
- New system may cut export customs clearance to few hours: Chidambaram
  New Delhi, Wednesday November 13, 2013
- Economy to get back on 8% growth trajectory in 2 years: Montek Singh Ahluwalia
  New Delhi, Tuesday November 12, 2013
- Indian rupee, bonds weaker on Fed tapering concerns after strong US jobs data
  Mumbai, Monday November 11, 2013
- Govt to focus more on 'chronic' service tax evasion sectors: FM
  Chennai, Saturday November 9, 2013
- Union Finance Minister P Chidambaram on Saturday said government would "very closely" focus on sectors prone to chronic service tax evasion like IT, real estate and consultancy.

(For further details on these issues, please visit the Institute's website: [www.icmai.in]() for the complete CMA E-Bulletin, Nov 2013, Vol 1, No. 8, at 'Research and Publications' section.)

OBITUARIES

The Institute and its members deeply mourn the passing away of three fellow members of the Institute. May their souls rest in peace and may God give courage and strength to the bereaved members of their families.



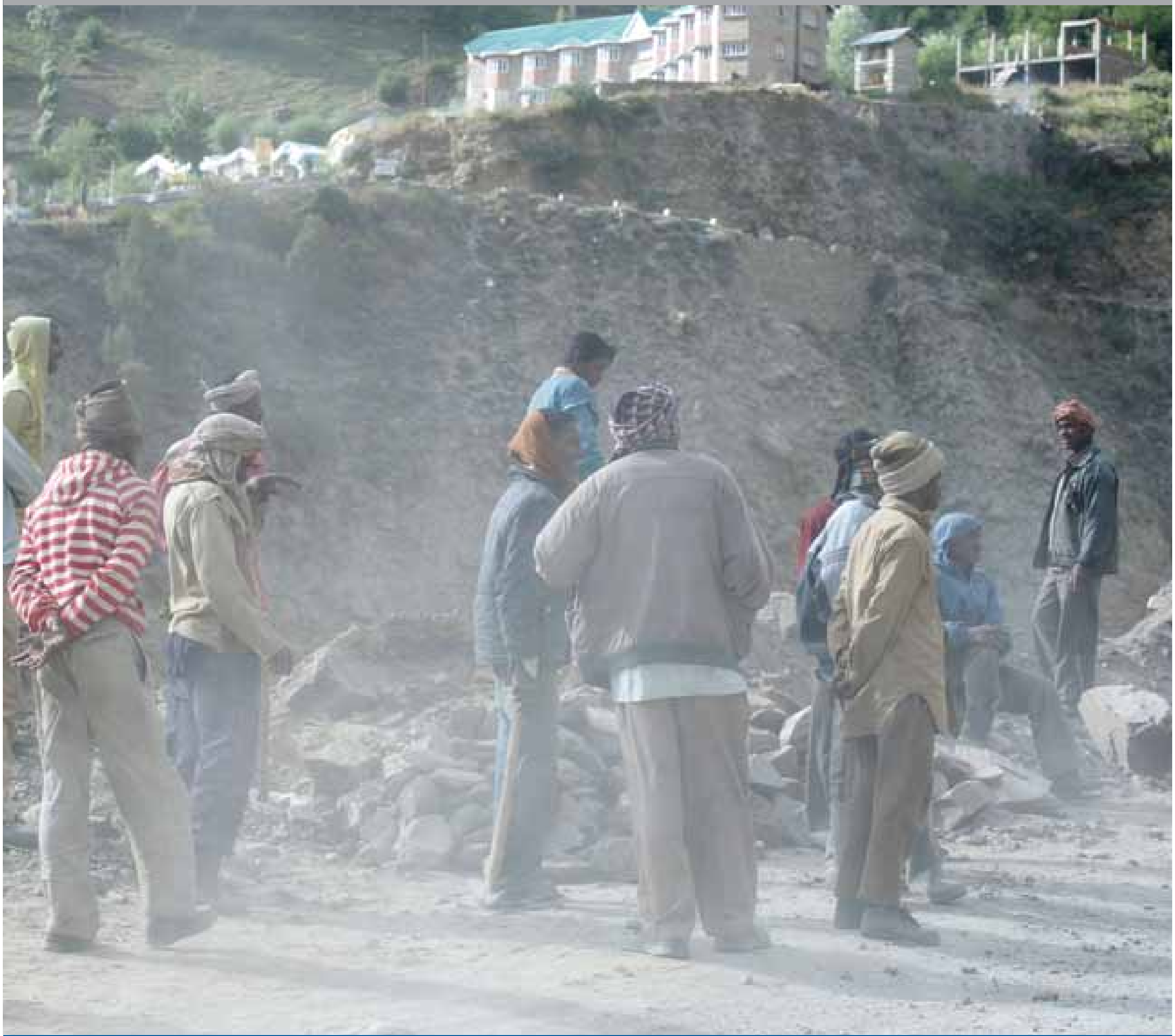
CMA J. N. Dembla passed away on 15th October, 2013. He was Chairman of the Jaipur Chapter from 1992-93. He worked in various capacities in state government departments like Public Health Engineering, Water Works and Public Works. He retired from the Accountant General's Office, Jaipur in September 1986 as Sr. Audit Officer. He had written the following books in 1985 for the State Government of Rajasthan: *Rajasthan Government Service Hand Book* and *Public Works Department Accounts Hand Book*.

CMA S. S. L. Sangal, passed away on 4th May, 2013. He was the Chairman of the Jaipur Chapter from 1978-79 and 1979-80. He initially worked at National Fertilizers Ltd., Nangal and eventually retired as Financial Advisor at Hindustan Salts Ltd. Jaipur. He was a Yoga practioner and a dynamic personality.

CMA D. V. Jagannadha Rao, a senior fellow member of the Institute, passed away on 18th September, 2013. He had served in various capacities for 32 years and retired as General Manager (Finance) from Bhilai Steel Plant. After retirement he took up practice as a cost accountant and as a senior partner in DVJ Rao & Associates, Visakhapatnam.

FISCAL ACCOUNTABILITY AND PRIs

Rural people in many States get very little services from Panchayats except through the implementation of schemes like the MGNREGS, and thereby have little stake in improving overall governance and accountability



Dr. M. N. Roy
IAS (retd.)
Former Additional Chief Secretary of the Government of West Bengal

THE Indian Constitution, adopted and enacted by the Constituent Assembly in 1949, envisaged a two tier federal structure with State and Union governments only. Article 40 within the Directive Principles of State Policy of the Constitution mentioned that the "States shall take steps to organise village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government". Most States did not pay any heed to the Constitutional directive and Panchayats, though established from the late 1950s, hardly functioned. There was lack of political will to strengthen the Panchayat Raj Institutions (PRIs) and, that remained as a very weak institution with hardly any function. Devolution was not on the agenda except in a few States where Panchayats were functional.

The 73rd Amendment of the Constitution in 1992 ensured establishment of the Panchayats in rural areas (and Municipalities in urban areas through the 74th Amendment) in all States and gave them the status of the third stratum of government. The 73rd amendment has some non-negotiable provisions like filling up seats in each tier of Panchayat through direct election from territorial constituencies every five years, reservation of members and posts of Chairpersons for Scheduled Castes, Scheduled Tribes and women, establishment of the State Election Commission and the State Finance Commission etc. Panchayats being a State subject, suitable law had to be passed by the respective State Legislature for conforming to the mandatory provisions of the Constitution and the same was done in each State. The Article 243 G of the Constitution provides that the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government. The same Article also mentions that devolution of power and responsibilities upon the Panchayats should be with respect to preparation of plans and implementation of schemes for economic development and social justice. Therefore, assigning responsibilities to the Panchayats is the first step which has to be followed by arranging funds for discharging their responsibilities. The nature of devolution of functions and funds upon the Panchayats are crucial in shaping their fiscal accountability.

PANCHAYATS IN INDIA HAVE NOT BEEN ASSIGNED ANY FUNCTION DIRECTLY BY THE CONSTITUTION. ISSUES RELATED TO LOCAL SELF GOVERNMENT OR VILLAGE ADMINISTRATION IS THE RESPONSIBILITY OF THE STATE GOVERNMENT

Indian Federalism and Panchayat Raj Institutions (PRIs)

The Indian federal structure divides all legislative powers between the Union and the States. Delivery of public services has no clear division and the responsibility prima-facie rests with the government having related legislative power. However, any tier of government can take up any developmental activity which does not have any legal bar. The Panchayats in India have not been assigned any function directly by the Constitution. Issues related to local self government or village administration is the responsibility of the State government, as per Entry 5 in the State List under the Seventh Schedule. The Panchayats may enjoy statutory power through enactment in the Assembly or the Parliament, as has been done under the National Rural Employment Guarantee Act, 2005. Statutory responsibilities of the Panchayats, which are functions of their own domain, are quite limited. They are engaged on activities related to economic

ORDINARY PEOPLE ARE NOT MUCH AWARE OF THE RESPONSIBILITIES ASSIGNED TO PANCHAYATS. THEY EXPECT THE PANCHAYATS TO TAKE CARE OF ALL THE LOCAL PROBLEMS

development and social justice and generally those have not been assigned to them under any law. Constitution and functioning of the Panchayats are guided by the provisions of the Panchayat Act of respective States, which also assigns to the Panchayats certain functions related to delivery of civic services. In many States the Act do allow them to take up developmental activities which fall under the domain of other departments. Asking the Panchayats to take up developmental activities concurrently with the State government diffuses the accountability mechanism. In practice that does not matter much since the Panchayats have neither funds nor capacity to take up those activities. Devolution of functions should be specific and exclusive to enable them to take up those functions with responsibility and thereby to remain accountable for the consequences. The design of devolution for providing specific and exclusive responsibilities are, thus, very crucial in putting in place desirable accountability framework.

The Constitution recommends devolving 29 subjects (mentioned in Schedule 11) to the Panchayats by the State government. Any subject mentioned in that Schedule cannot be meaningfully devolved as a whole, although many States issued orders for devolving the entire subject after the 73rd Amendment of the Constitution. There was, however, hardly any devolution of funds and functionaries for carrying out any task related to the subjects devolved and the devolution remained on paper in most States. It was almost a decade after the 73rd amendment of the Constitution the defects in the devolution process was appreciated and there was a move from the Union government in making functional devolution more specific and exclusive without any ambiguity followed by corresponding devolution of funds and functionaries, which are essential to put in place required responsibility and accountability mechanism.

A rational approach to devolution

The entire range of functions, which are required to be performed by Panchayats under any subject taken up for devolution, have to be unpacked into various activities which may be performed by any tier of Panchayat. All such smaller activities will belong to categories such as those related to setting standards of service delivery, planning to reach the required standard, building infrastructure for delivery of services, operation and maintenance of the infrastructure and monitoring quality of services delivered[1] . Various categories of works are to be devolved upon different tiers of government based on the principles of public economy so that the task is carried out efficiently along with following the principle of subsidiairty, which says that any responsibility should not be assigned to any higher tier of government if the same can be performed at the lower level. The process, known as 'Activity Mapping' is to be carried out for each subject/programme being implemented by the Union or the State government. In India the above process has been hardly followed, though some attempts are being made now at the level of the Union government in respect of assigning clear responsibility to Panchayats in respect of implementation of the Centrally Sponsored Schemes and Central Sector Schemes (CSS)[2] .

Once 'Activity Mapping' is completed the devolution may be made either through appropriate law or through executive order. It is better to have the devolution under law to have legal biding for delivery of services and giving the arrangement a more permanent shape instead of through executive orders, which can be changed any time. For statutory and regulatory works (collecting tax, birth and death registration, passing building plan, issuing trade license etc.) the authority has to be assigned only through appropriate laws. For developmental activities

[1]Towards Holistic Panchayati Raj (2013): Report of the Expert Committee on Leveraging Panchayats for Efficient Delivery of Public Goods and Services.
[2]Ibid.

there may be an option to assign functions to Panchayats through executive order, in which case the Panchayats work as mere agents of the higher tier government. Most of the development works taken up by the Panchayats in India are mere agency functions and there are only a few exceptions like implementation of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), for which they have legal responsibility. These development works are carried out, to a very large extent, in course of implementation of the CSS. Budgeted amount for the major 13 CSSs under implementation in rural areas during the year 2013-14 is around Rs 1.97 lakh crore[3] . These CSSs constitutes the overwhelming majority of public investments in the rural areas of the country. In all the schemes the guidelines urge for involvement of the Panchayats but expenditure related decisions are mostly left to parallel bodies, such as societies formed for the specific purpose of implementation of the schemes. The parallel bodies have no accountability towards the Panchayats or the Gram Sabha and rather the accountability is towards the state level authority which constitutes the body and releases funds to them. A few functionaries of the Panchayats are generally inducted in the parallel body at district or block level, which is not a substitute for institutional involvement of the Panchayats, which is desirable. In guidelines of the CSSs procedures for involvement of the Panchayats are not clearly defined and roles of the Panchayats remain confined mostly to no cost or low cost activities like beneficiary selection or mobilizing the people to participate in the programme. Actual involvement of the Panchayats varies widely across States depending on respective Panchayat system. Cursory involvement of Panchayats with no real power in implementing the schemes can create false impression on the people about responsibilities of the Panchayats in delivering services to them. The CSS guidelines need modification so that whatever tasks is assigned to the Panchayats the same may be carried out with reasonable autonomy and there is clarity on their responsibilities so that they remain accountable to their residents.

The share of statutory and regulatory functions of the Panchayats is quite little and is masked by much larger involvement in carrying out schemes of the State or Central government. Panchayats can take up developmental activities outside the CSS or the State schemes, which do not require legal authority, out of their own funds. Share of such works is quite low since the Panchayats neither have enough revenue nor they have required knowhow and implementing machinery. The State government specialist working at the district or sub-district level are not always allowed to assist the Panchayats and where such order exists, their accountability towards the Panchayats is weak or non-existent making their involvement very tenuous. Thus, Panchayats are neither mandated to take up certain specific developmental responsibilities of their own nor they have funds and capacity to do so. Therefore, their activities in this regard are very limited and they cannot be held accountable for such failures without ensuring accountability of the State government to strengthen their revenue base and administrative capacity. The fiscal accountability depends on the extent of discretion the Panchayats enjoy in deciding allocation of resources, which is very low at present. Higher share of discretion based expenditure augments their fiscal accountability for which either the Panchayat should have enough Own Source Revenue (OSR) or should receive enough funds, not tied to any scheme, as transfer from the State or the Union government. It is the federal fiscal system which decides how much fund can be raised locally or transferred to the Panchayats from the higher government, the mode of transfer and related conditions.

Federal fiscal framework in India

The fiscal structure provided in the Indian Constitution divides the authority to raise revenue between the Union and the State governments and the revenue raising power is heavily biased in favour of the Union government. The Constitution also provides (Article 243H) that the Legislature of the State, 'may, by law, authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees' and assign a Panchayat 'such taxes, duties, tolls and fees' levied and collected by the State government. In practice very little taxation or other revenue raising powers have been assigned to the Panchayats and they are dependent on the higher tiers of government for transfer of funds. That takes place through grants provided from the Consolidated Fund of the Union or the State governments as per recommendation of the Central or State Finance Commission respectively or through scheme based transfer of funds, which are basically agency functions with very little discretion in changing the nature of activities that may be taken up with such funds. The State may also provide grants-in-aid to the Panchayats from its Consolidated Fund. The ultimate purpose of such fund transfer is to ensure that Panchayats have the required fund to meet their expenditure liability. Transfer of fund without assigning specific responsibility of delivering services does not lead to any accountability in meeting those

[3]The schemes are MGNREGS, SSA, PMGSY, NRHM, ICDS, NRDWP, IAY, RKVY, BRGF, NSAP, RGGVY,NBA and AIBP – all with more than Rs 10,000 crore annual budget except the last four schemes

specific public needs and Panchayats are free to spend funds on activities for which they have no responsibility. That makes the fiscal accountability framework weak and the solution is to give specific responsibility on Panchayats for performing certain activities exclusively which are possible to be handled by them efficiently, as explained before. The States are also duty bound to build enough administrative capacity of the Panchayats in discharging the assigned responsibilities. Thus, fiscal accountability of the Panchayats become contingent upon the States playing their roles properly in assigning responsibilities specifically and exclusively, providing enough funds and building capacity of the PRIs.

Ordinary people are not much aware of what responsibilities have been assigned to the Panchayats. They expect the Panchayats to take care of all the local problems and demand services, which require resources many times higher compared to their revenue potential. Some of the tasks have to be carried out by the Panchayats because of need from below which may not have been assigned by the State government and involving petty local issues which do not even come under considerations of the State government. Panchayats are generally poor in collecting revenue because of proximity to the payers and low capacity, which widens the gap between OSR actually collected and expenditure responsibility. This gap is bridged through transfer of funds from the State or the Union governments. Funds transferred from the Consolidated Fund of the Union government as per recommendation of the Central Finance Commissions has been increasing over the years. Total transfer of funds to all the Panchayats of the country as per recommendations of the 10th Finance Commission (1995-1000), the first Finance Commission to give their recommendations after the 73rd Amendment, was Rs 4,381. That was decided on an ad-hoc rate of Rs 100 per capita of the total rural population. The total recommended transfer to Panchayats by the 13th Finance Commission (2010-15) was Rs 64,046 crore, which works out to be around Rs 769 per capita based on 2011 Census population and this was a formula based share of the central divisible pool. The 13th Finance Commission not only augmented the total fund flow to Panchayats but also was the first central Finance Commission to recommend a formula based share rather than an ad-hoc amount, which recognizes the Panchayats as the third tier of government, which is entitled to get a share of the Consolidated Fund and not a grant. Functioning of the State Finance Commissions vary widely across States. These are not always constituted on time; there is delay on taking actions by the State on the recommendations and barring a couple of States funds are not transferred as per recommendation. There is uncertainty both on amount of fund to be released and its timing, making expenditure planning difficult. In many cases the amount transferred are tied living little or no discretion for the Panchayats to meet the local need as per their judgment, which dilutes the fiscal accountability of the Panchayats. Though total transfer of untied fund as per recommendations of the Central/State Finance Commissions are increasing yet that is much smaller compared to the total expenditure being made through the CSSs, an indication of which has been given earlier. This has to be reversed so that formula based transfer of funds to the Panchayats is much more than what flows through the CSS as discretionary grants to the States for promoting fiscal accountability of the Panchayats.

Understanding accountability

Accountability is basically remaining responsible for the consequences of any action. The relationship of accountability is between a 'principal' and an 'agent' that works on behalf of the principle and the World Bank identifies five elements: delegation, financing, performing, informing and enforcing[4]. In the private domain, such as the market, the same is established easily. Any agent supplying any goods or services remains accountable to supply to an individual, who may be called the principal, is paid only on satisfactory delivery by the agent. If the quality of service is not satisfactory the delivery is either discontinued or if the transaction has been completed the person stops coming back to the agent for the second time. The associated accountability mechanism has two district parts; first one is to clearly define what is to be carried out and conditions for treating the services as satisfactory (setting standards) to be able to judge performance and making payments on being satisfied and the second part is to enforce compliance and breaking the relationship in case of unsatisfactory performances, if necessary. In case of individual transaction; defining the task, judging performance and making payment are all done quite easily by the principal, who can also enforce compliance.

In case of services delivered by a democratic government all the components of the accountability mechanism are hugely complex, even at the level of local government. The accountability in such cases is decided by the principal-agent relationship, in which the citizens are the principal who elect their government to function as their agent for delivering goods and services they need. The responsibility of deciding on what services are

[4] The World Bank, 2006: India Inclusive Growth and Service Delivery: Building on India's Success. Development Policy Review, May 29.

necessary, the required quality, watching on the same and making payment for satisfactory completion of the job are performed by various wings/persons, usually spread over different locations. The institutional arrangement depends on the governance structure and related practices, which may not be observed by the citizen as principal. The other important aspect is that the relationship between the principal and the agent cannot be snapped, as can be done in the market, since authorities enjoyed by the government are mostly monopolistic and the alternative arrangements, where available (healthcare, schooling etc., where private sectors are present), are much costlier. Further, once the functionaries have been elected it is not possible to change them till the next election. Since neither the relationship can be snapped nor the elected functionaries can be changed at will, the only solution is to have a strong accountability mechanism by putting in place appropriate institutional arrangements so that the Panchayats functions up to the satisfaction of the people. The problem is further complicated by the existence of government at many levels, to which they have elected their representatives, and people not really understanding who is responsible for what services. Devolution to the Panchayats for assigning exclusive responsibility and the process by which the same is done becomes important in this context of demanding accountability for taking expenditure decisions and implementing such decisions.

Devolution should be so designed that it enhances the fiscal accountability of the Panchayats. The best arrangement is to make the Panchayat in each tier responsible for those services the cost as well as benefits of which is fully internalized by the population living within the jurisdiction of the Panchayats, which happens when the benefit area coincides with the jurisdiction without any externality and all revenue and expenditure details are shared with the people. In practice, except for certain utilities, the funding is not direct and various services are funded out of total fund available with the government responsible for delivering services. Higher share of OSR in total expenditure by any government reduces dependency and thereby increases sustainability of delivery of services as well as enhances accountability since the payers of taxes or fees demands value for their money. OSR of the Panchayats is too little both in absolute as well as in comparison to their expenditure responsibilities, which reduces the scrutiny of Panchayat's expenditure by the people. Oomen has estimated that share of OSR of the Panchayats out of total revenue raised in the public sector is merely 0.3% in the year 2007-08. At that time share of expenditure responsibility by the Panchayats was 3.7% of total public expenditure and thus the Panchayats have been generating below 10% of their expenditure responsibilities[5]. Considering spending in rural area only, Jha estimated that share of public spending in the year 1999-00 were 7.2%, 50.9% and 41.9% for the Panchayats, State and Union governments respectively. Share of per capita own revenue during the same period were 0.7%, 41.7% and 57.6% for the said three levels of government respectively[6]. The ratio of expenditure responsibilities to OSR is thus most skewed for the Panchayats and so much dependency for funds on higher governments is a major constraint against developing fiscal accountability of the Panchayats. It may be mentioned that share OSR by the local governments in OECD countries out of total revenue raised by the governments of all tiers is around 65.6% (taxes 49% and fees 16.6%)[7].

Fiscal prudence for effective and efficient use of resources

Fiscal accountability related to expenditure is all about prudent use of resources, which has two dimensions. The first one is effective allocation of resources to maximize people's wellbeing (doing the right thing) and the subsequent one is utilizing the allocated resources efficiently (doing things in the right manner). The first part is applicable where the Panchayats are using their discretion in allocating resources. In most of the CSSs and similar programmes allocation of resources are done at the national or state level and there is hardly any fiscal responsibility of the Panchayats related to effectiveness of expenditure allocation, except where there is some local discretion in expenditure, like taking up the most appropriate type of works under the MGNREGS. Level of participation in decision making and more deliberative democracy through organizing Gram Sabha can improve accountability related to expenditure even on schemes where macro-policy has been framed at a much higher level leaving some element of discretion locally. The other component, i.e., whether expenditure is being made efficiently is more visible to the ordinary citizen. This is concerned with implementation of the expenditure decisions following rules for financial management and keeping the cost of delivery at the lowest level without compromising with quality.

Physical implementation is more tangible and visible to the local residents, though ordinary citizen may not have any knowledge about the cost of delivery. Fiscal accountability in such

[5] Oomen, 2010: 'The Thirteenth Finance Commission and the Third tier'. Economic and Political Weekly, November 27.

[6] Jha Shikha (2002): 'Strengthening Local Governments. Rural Fiscal Decentralization in India'. Economic and Political Weekly, June 29

[7] The World Bank (2006): Local Governance in Developing Countries. Edited by Anwar Shah, page 37

cases may be substantially improved through disclosure of expenditures and related processes voluntarily to the citizen in an easily accessible manner (writing expenditure details on the wall). Conducting social audit is one step further in which there is formal arrangement for the citizen to verify the physically observable aspects of the service delivery with the associated expenditures made on such activities. However, social audit may not be effective to judge compliance to financial rules like whether procurement was made properly or quality of works (unless that is so poor that is visible in ordinary eyes) etc., which require specialized knowledge. Oversight by experts from the higher tier of government can improve effectiveness of expenditure, which are not visible to the laymen. The other way of improving expenditure efficiency and related accountability is to compile comparative figures across similar Panchayats in the region and sharing them to the citizens as well as those engaged in oversight functions, which is hardly done because of lack of quality data as well as manpower to compile those figures. Competitiveness among the Panchayats in the same district or region can also raise question on fiscal accountability of the poor performers and in absence of sharing related information this mechanism is hardly operative in improving fiscal accountability of the Panchayats.

Fiscal accountability and the agency function of the Panchayats

The Panchayats are mostly engaged in performing agency functions as per order issued by the State/Union government and remains accountable for implementation of the tasks assigned to them. Such an arrangement demands that the upper tier of government concerned should remain accountable to the Panchayats for providing necessary resources including funds in meeting the obligations towards the people in delivering desired services. Accountability of the higher tier government in providing necessary supports to the Panchayats, which remains at the back end, is less visible and little understood by the people. There is no enforceable contract between the State/Union governments and the Panchayat and any arbitrary action of the higher government goes unchallenged. However, the people hold the Panchayat responsible for any failure to deliver service irrespective of whether that is due to failure of the higher government in providing resources to the Panchayat or the same is fully on account of lapses of the Panchayat. Defective devolution and unclear arrangement of how the higher tier government will meet their obligation in ensuring that Panchayats discharge their responsibility may distort the accountability mechanism. Such arrangement may also become an alibi for the Panchayat not to own their failure and passing the blame on the higher tier government. Thus, agency function not only weakens the fiscal accountability but also makes the Panchayats vulnerable to criticism for failures which are actually on account of the failures of the higher government. This is a major problem in strengthening the PRIs in India, which needs to be addressed through proper devolution of functions, funds and functionaries and making the mutual responsibilities of different tiers of government transparent, well publicized and legally enforceable.

Many of the goods and services delivered by the Panchayats as agent of the Union/State governments are free or subsidized and people are ignorant about what the real cost of such services are, which they bear indirectly. For example, public education may be free to the people but the same may cost more to the State than what private education costs to the people. Yet, people may opt for public education and may not demand fiscal accountability because they have no knowledge of the real cost and in any case they are not bearing the same. Since the people are not paying for the free services they should be aware of the cost involved, which is easier if the entire expenditure is planned and borne at the local level. Failure of the people to internalize the cost of providing the services suppresses fiscal accountability of the Panchayats. Fiscal accountability improves if all decisions related to financing and spending on subsidized goods and services are taken at lower level, like the Gram Panchayats. In several cases involvement of the Panchayats in delivery of services is restricted to identifying the beneficiaries which lead to flow of some benefits to them and not making any expenditure directly. The issue of fiscal accountability of the Panchayats in such cases shifts to fairness of selection of the beneficiaries without questioning the fiscal aspects of delivering the services.

People's engagement with the Panchayat for demanding accountability

Those who receive services from the Panchayat are in the best position to watch the quality of delivery and to demand accountability. Panchayats provide services mostly targeted towards the poor, who do not have ability to judge the services and demand accountability. The goods and services received by them are considered as patronage without raising question. They have little empowerment to question and influence functioning of the Panchayats and any protest may even lead to stoppage of whatever benefits are reaching them. So demanding accountability by the people who receives targeted services is either absent or ineffective, which is further aggravated by weak grievance redressal mechanism concerning functioning of the Panchayats. The richer and more empowered citizens, who are capable of making the Panchayat answerable, do not generally bother because they hardly receive services from the Panchayats. The media attention for malfunctioning of the Panchayat is also almost absent. So, watch on the Panchayats and compelling them to remain accountable for their fiscal performance is quite weak and mostly ineffective. In India majority of Panchayat functions are associated with the poorer and weaker section of the society and share of services which are meant for every citizen living within its area is quite little unlike that in the developed countries, where every citizen has dependence on the local government and, therefore, all of them have stake in improving performance of the local government. There is need to increase the range of services which are universal and may be demanded by any citizen for improvement in the quality of engagement of the citizen in enforcing accountability of the Panchayats. Till that transformation takes place, there is need for strong oversight from the State government, which again hardly exists because of lack of priority of the State governments. The State government should put in place other collateral arrangements like proper implementation of the RTI Act by the Panchayats, putting in place a sound auditing system and establishing the institution of Ombudsman for independent handling of complaints of corruption and malfeasance against the Panchayat functionaries. There is also scope for better engagement of the civil society in promoting fiscal accountability of the Panchayats. The solution is more mobilization and sensitization of the community for taking interests in matters of common interests. The Self-help Groups of women are being organized in large numbers across the country and they are emerging as an important social force. Their engagement with the Panchayats can improve accountability of the Panchayats.

Institutional functioning of the Panchayats and accountability

Along with vertical devolution of power to the Panchayats there should be appropriate horizontal devolution for promoting collegiate functioning and owning responsibility as a group comprising all elected representatives for the consequences of actions taken by the Panchayat. These are mostly done through Standing Committees where as many members, including members representing opposition political parties, can be associated. That requires appropriate institutional framework, facilitation and oversight from the State government. In many places collegiate functioning is very weak and all powers remains confined to a few individuals with little accountability. Socio-economic background and capacity of the individual members, who are ideally in a better position to demand accountability within the Panchayat, becomes very important in this context. Many of them get elected as proxy of other influential group or individual (including male member within the family in respect of women). Such members have their obligation towards those who remain in the background and the power remains virtually captured by the elite and those with vested interests, who may be even from the backward social groups. The elected representatives are either co-opted in lieu of personal benefits or they are marginalized with no real power. Larger political interests or vested interests of the local elite take precedence over the local common interests in such situation. The entire democratic process becomes vitiated and all accountability mechanism social or financial remains inoperative.

Social-vs-financial accountability

One important dimension of accountability is doing justice to the poorer and socially backward sections of the community and social accountability becomes more relevant than fiscal accountability. This has been attempted to be safeguarded with provision for reservations of seats and posts in the Panchayats. There has been overall improvement in concern and actions for delivering justice towards the weaker sections. However, such development is not happening at the same pace across the country and the progress is slower in areas which are socially more backward. Capture of political power by the local elite may vitiate the social accountability as mentioned in the preceding paragraph and capability of the members from the socially backward sections is an important determinant in resisting such move. In areas with more social backwardness the representatives are likely to have more gaps in capability compared to the representatives from the socially dominant forces, who also enjoy higher economic power and have better access to the higher authorities, both political and bureaucratic and are, therefore, capable of manipulating their ways in keeping the others silenced at the cost of more inclusive growth and social justice.

OSR and fiscal accountability

People's watch improve only if they bear the cost of delivery and internalize the return on the money they spend as user fee or pay as tax to the Panchayats. Ideally every government should have their own revenue base for fully financing their expenditure responsibilities. The fiscal federal system of the country provides the institutional arrangement for raising revenue by different tiers of government and providing for transfer of funds, which is from higher to lower tier of government, to meet the gap between expenditure responsibilities and own revenue. The fiscal accountability of Panchayats is substantially dependent on how fund is raised or received as transfer from higher tiers of government. The accountability is direct only for the component of expenditure which they raise from their residents so that the residents are in a position to ask question about how their money is being spent. Revenue that may be raised also depends on existence of strong accountability so that people know that money spent by them is being properly used. In fact, low collection of OSR by Panchayats is related to poor fiscal accountability that exists on the ground. So, putting in place a good accountability mechanism promotes both revenue mobilization and utilization of the revenue raised. Lack of specific responsibilities on the Panchayats and low OSR, as it exists now, makes fiscal accountability of Panchayats towards the citizen quite week. The accountability of the Panchayats rather shifts to the opposite direction towards the higher tiers of government from which funds are received. The nature of fiscal accountability in such cases also depends on whether funds are transferred based on entitlement or for implementing any programme.

Formula based entitlement-vs-scheme based funds

Funds received by the Panchayats through formula based transfer and with assured flow in quantity and timeliness can improve overall fiscal management and ownership of the funds for being accountable for its effective use. Internalization by the Panchayats about their entitlement of receiving funds and utilizing the same to meet specific needs of the locality is essential for utilizing funds both effectively and efficiently. Since they are receiving such funds as per entitlement on the strength of being the local government with certain responsibilities they remain more accountable to the people in utilizing such funds. That is not the case in many places because of weak capacity of the Panchayats and development of a sort of client-patron relationship between the Panchayats and the higher tiers of government, which gets strengthened with flow of large quantum of grants to the Panchayats as per discretion rather than enforceable obligation of higher tiers of government.

Panchayats are left with little freedom to spend funds available for implementation of any programme in the best interest of the area. The problem becomes more acute when there is more heterogeneity of needs to be addressed using centrally designed schemes, which is faced quite often. Panchayats, in such situation, tend to spend funds mechanically to conform to the scheme guidelines and with little integration with other planned activities. The achievement is measured in terms of utilization of funds and not actual services or outcome and citizen's satisfaction and, therefore, quality of expenditure is hardly monitored or even verified by the funding authority resulting in losing focus on outcome of the expenditure as judged by the citizen. Reports on physical achievement is easily manipulated since people are not aware about what is being reported by the Panchayats and the higher level government remains concerned with macro-statistics of achievement which hides local performance. The case in point is the outcome of TSC (now renamed as Nirmal Bharat Abhiyan). The reported achievement in construction of household toilets under the programme was found to be much more than development on the ground observed during the 201 census. There are districts where over reporting was as high as 200% or even more. In many cases the role of Panchayat remains restricted to selecting the appropriate area/beneficiary or scheme without violating the guidelines of the programme. Compliance with the norms is judged by officials of the higher bureaucracy and their discretion is important in obtaining subsequent installments. So, the accountability shifts to the higher tiers of government and not the people, who neither remains aware of the conditionality nor know to what extent available funds could be used for meeting local needs. In many cases the programmes are named after national leaders/Prime Ministers etc which make the people relate the scheme more to the central government than their local government. Thus even expectation of the people in proper use of such funds remains confined to operational aspects and quantum of expenditure and not on whether the Panchayat could use the fund for some more useful alternative even within the scheme guidelines.

It may be mentioned that in case of success of Central/State programme, it is the government (Union government for the CSSs) who takes the credit and in case of failure the operational issues are highlighted in putting the blame on the Panchayats. Macro policy related to such scheme is taken at higher levels and flaw in design puts the Panchayats in a vulnerable position. The CSSs, which constitutes the largest share of expenditure by the Panchayats suffer from such problem except scheme like the MGNREGS in which roles of the Panchayats are defined under the Act. Even in such cases the Panchayats remain vulnerable to many operational arbitrariness and lapses by the higher tiers of government in not being able to discharge their responsibilities. Involvement of the PRIs in implementation of the CSSs varies from clearly spelling their roles in the Act, like the NREGA, to leaving the same quite vague with some general statement expressing desirability of involving the Panchayats and mostly not mentioning the nature and extent of the involvement. The guidelines issued by the Union government are often cryptic or even ambiguous on how the PRIs will be involved in implementation of the schemes. In some cases involvement of Panchayats is restricted to only activities like mobilization of the target group and identification of beneficiaries involving little or no expenditure.

Defining and measuring output of mobilization is quite difficult and such vague description of tasks does not lead to fixing any accountability. Though the processes for identifying beneficiaries are prescribed but high degree of inequality in the society, low level of literacy and inadequate information on the programme or procedural details as well as overall lack of empowerment of the people can leave scope for manipulation. Powerful functionaries of the Panchayats may take this as an opportunity to provide patronage to their own people for political mileage or illegal financial gains. Focus on such short term political gains compared to long term well-being of the people is more associated with the nature of politics in general and affects accountability of all tiers of government. So, while discretion and autonomy may augment accountability but absence of such practice may also affect service delivery. Therefore, along with the accountability framework it is equally important to have conducive social and political environment for enforcing accountability.

Hard budget constraint and fiscal accountability

Any government becomes more responsible in making expenditure decisions if they have hard budget constraint, which does not allow allocating resources for all the needs so that thorough analysis is made of all possible alternatives of allocating resources. The Panchayats do not generally have clearly assigned responsibilities to be discharged of their own and rather They are involved in a part of the process and the entire outcome depends on many other activities conducted by the State/Union governments. In such a scenario expenditure decisions of the Panchayats merely fit in to the overall scheme of development decided by the State/Union government and that leaves little scope for the Panchayats to pursue any developmental goals of their own and deciding on possible alternatives expenditure decisions. Thus, they do not face any hard budget constraint to finance the best alternative for a clear outcome and remain fully responsible. It reduces the accountability of the Panchayats in meeting clearly assigned developmental goals for their people. This is contrary to the spirit of the Article 243 ZD of the Constitution which envisages the Panchayats to be involved in planning and implementation for economic and development and social justice. Therefore, making best use of its own discretion in taking respective Panchayats to a higher status on socio-economic development is not the call of the Panchayats in general though there are exceptions. Capacity of the Panchayats in understanding socio-economic status of their areas for planned improvement with full participation of the people in a bottom up mode is missing. In absence of clearly defined goals and related responsibilities of Panchayats, lack of monitoring of progress objectively against standards set to be achieved by each Panchayat, transparency through adequate disclosure mechanism and participation of the people for effective engagement by the citizens, it is difficult to promote fiscal responsibilities of the Panchayats. Improving upon the situation requires clear road map for progress of all the components and strong facilitation and oversight functions by the State.

Discretion-vs-accountability

Funds receives by the Panchayats are mostly tied and semi-tied which are to be spent as per programme guidelines. Fiscal accountability increases with discretion and autonomy and in cases where there is no discretion and autonomy there is no accountability on what for the money has been spent, which is already decided at higher levels. At the same time providing autonomy and discretion to decide on the best expenditure option by the Panchayats, being closer to the people and with better information advantage, can improve well-being of the people by becoming more responsive to their needs. Therefore, it is better to have such fiscal arrangement in which the Panchayats have autonomy on deciding their resource allocation for different activities, which requires substantial augmentation of the OSR and/or formula based and time-bound transfers. Since the current practice is just the opposite the culture of demanding fiscal accountability remains subdued which keeps the local governance structure quite weak.

The other aspect of efficient use of funds for carrying out the decision taken (either by the Panchayat or by the higher tier) is concerned with prudent financial management, which is quite weak, particularly at the Gram Panchayat level. Accounts are not maintained properly and those remain in arrears. Internal expenditure control arrangement is also weak and there are not enough institutional arrangements or manpower in safeguarding those aspects. In absence of timely preparation of accounts and inability to generate various financial performance parameters, which can be done through computerisation of accounts, proper scrutiny of financial management becomes more difficult. Systems of accounting, expenditure control and auditing have much scope for improvement in many States. Introducing double entry system of accounts and its computerisation and posting important details in the website for being accessed by anyone are good practices, which some States have started following. Full computerization of Panchayats accounts may improve overall fiscal management, which promotes fiscal accountability.

Collateral arrangement for augmenting fiscal accountability

The nature of fiscal accountability of the Panchayats depends on several factors as discussed before. The other related aspect is how the accountability is enforced. The starting point for enforcing accountability is the knowledge of the citizen on what the Panchayats are supposed to deliver, quality and cost of services and watching on how those deviate from what is actually done. The knowledge base of the people on all these aspects is quite poor. Lack of transparency; failure to put in place institutional arrangement like effective deliberations at the Gram Sabha and giving due respect to the voice of the opposition etc. makes the accountability mechanism inoperative. Poor individuals with limited literacy and having high dependency on the ruling group are in no position to seek answers to their doubts on functioning of the Panchayats. The problem is further compounded by illiteracy, economic and social inequality between the ruling group and the ordinary beneficiaries, which chokes the voice mechanism. This also lead to elite capture and strengthening the patron-client relationship in using the Panchayts in doling out largesse far away from developing the Panchayats as institutions of democratic self government with equal right of all the citizens. Democratic practices of demanding accountability by the members who are not on the ruling side or belonging to opposition political party, where election is fought on party line, is either non-existent or weak. In several places the voice of the political opposition, which is essential for operation of democratic processes of improvement of governance is absent and the culture of domination over the weaker groups and intolerance to any dissents view prevails. All these lead to poor governance at the local level and fiscal accountability takes a back seat.

The way forward

Improving governance at the local level is dependent on putting in place a system of fiscal accountability. The system, at present, is in a low level equilibrium with poor accountability framework, poor governance in terms of service delivery and low expectation of the people from the Panchayats. Rural people, in many States, have very little services from the Panchayats except through implementation of schemes like the MGNREGS, and thereby have little stake on improving overall governance and accountability. The political parties are also not much concerned with governance at local level because many of their leaders are not keen to devolve more powers to the local government at the cost of losing their own powers. At the same time there are around 28.4 lakh elected Panchayat representatives, taking all the three tiers together. Their voice is growing for strengthening local governance but is not enough in absence of any organized political or civil society movement for decentralization. Only such movement or strong will of the State government can lead to shifting towards higher level of equilibrium with more services by the Panchayats, more stakes of the local people and demand for more accountability for improving governance. The progress of PRIs in the country has taken place in a fitful manner without following a clear strategy for improving local governance from the highest administrative authorities or the political parties. At the same time, delivery of various services to the rural people continues to be quite poor. As a result, the country has trailed behind its neighbours on various indicators of social development in the last two decades in spite of a much faster economic growth . The trend can be reversed only with improvement of service delivery at the local level along with strong accountability for utilizing the huge resources which goes on for various developments. This is possible through strengthening the local government in the spirit of the Constitution. Most States, so far, have merely compiled with the mandatory provisions of the Constitutions ignoring the larger issue of putting in place a strong and functional local government with rational devolution. There is little drive from above and the only alternative is to have the push from below to compel the State governments for strengthening the PRIs and designing devolution appropriately for putting in place a strong framework of fiscal accountability. There should be also massive awareness building of the rural people, being the principal stakeholder of the PRIs to be able to drive the Panchayats, as their agents, for satisfying their needs with equity and efficiency. That will also help more inclusive governance to prevent various dissents on ethnic or other local issues, which is now a real threat to the integration and progress of the country.

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CHALLENGES THAT FACE DECENTRALIZED PRIs IN MOBILISING RESOURCES

It is high time to relook the policy on delegating resources from the upper tiers to PRIs. If we really want to achieve the goal of self sufficient local governance, some taxation powers should be given to local-level rural governments

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SINCE Independence, the Government of India gave thrust on the development of rural areas by promoting local level governments all over the country. The structured formation of PRIs came much later through 73rd Constitutional Amendment Act in 1992 though. This act designated Panchayati Raj Institutions (PRIs) as the three tier rural local government; the amendment provided for devolution of powers and responsibilities to different tiers of PRIs.

India is a federal country with the Central Government at the national level, state governments and Union Territories at the regional/state level and local bodies (rural and urban) in the local level. The rural local bodies, popularly known as Panchayati Raj Institutions (PRIs), have been in existence since ancient times but failed to have an impact for various reasons mainly because of lack of constitutional mandate and non-devolution of functions and resources. Keeping in view the failures encountered in earlier experiments and the need for better local level governance, the Central Government introduced the 73rd amendments to the Constitution in the year 1992. The amendment relates to rural local governments i.e. creation of structured PRIs all over the country. Out of the many important provisions of the 73rd Amendment Act, few are: compulsory elections to PRIs once in five years, reservation of seats and executive positions for Scheduled Castes/ Scheduled Tribes (SCs/STs), backward classes (optional) and women and the constitution of Finance Commission and District Planning Committees. The Panchayats have a three-tier structure below the state, namely, Zilla/ District Panchayat at the district level, intermediate/middle level Panchayat at the Taluk/block level and Village/ Gram Panchayat at the village level.

Despite constitutional arrangements, three tier PRIs suffered in mobilizing adequate resources for development of their areas time to time. In order to fulfil their financial obligations, most of the PRIs look upon to Central and State level funds which are mostly tied in nature. This in fact is a major setback for the core concept of local "self" governance in general. The very issue of financial independence is missing for local bodies to plan and execute according to their convenience.

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Fiscal decentralization or fiscal imbalances?

Theoretically fiscal decentralization involves a level of resource reallocation to local government which would allow it to function properly and fund allocated service delivery responsibility, with arrangements for resource allocation usually negotiated between local and central authorities. The fiscal decentralization policy would normally also address such issues as assignment of local taxes and revenue-sharing through local taxation and user and market fees. In Indian context vertical and horizontal fiscal imbalances created a problem for local level rural governments to perform their assigned tasks as mentioned in the Eleventh Schedule of the constitution. Mismatch between three Fs (fund, function and functionaries) created disparity within the country. Few states have been successful in delegating most of the Fs where majority lacks in doing the same.

It is interesting to that some states have transferred more than 15 subjects mentioned under the Eleventh Schedule to PRIs. States namely Assam, Karnataka, Chattisgarh, Rajasthan, Tamil Nadu and West Bengal have transferred all the 29 subjects (Babu, 2009). It may be noted here that the tasks involved at the grassroots level are gigantic. This requires adequate resources and functionaries. However, with regard to these two, the states have not shown the same zeal as they did while devolving the functions. A few exceptions are Karnataka, Kerala, Maharashtra, Rajas-

Table1: General basic grants allocated and released by 13th Finance Commission for PRIs (Rs. in crore)

Sl.No	State	2010-11		2011-12		2012-13	
		Allocation	**Release**	**Allocation**	**Release**	**Allocation**	**Release**
1	Andhra Pradesh	480.74	480.74	615.85	304.70	659.54	0.00
2	Arunachal Pradesh	25.20	25.20	32.28	16.14	34.58	0.00
3	Assam	145.11	73.44	185.89	164.62	199.08	92.95
4	Bihar	455.70	455.69	583.77	583.77	625.18	0.00
5	Chhattisgarh	153.67	153.67	196.86	196.86	210.82	105.41
6	Goa	8.32	4.21	10.66	4.11	11.42	0.00
7	Gujarat	214.61	217.24	274.93	272.31	294.43	147.22
8	Haryana	99.94	101.16	128.02	126.80	137.10	68.55
9	Himachal Pradesh	51.20	51.20	65.59	65.59	70.24	35.12
10	Jammu & Kashmir	84.48	0.00	108.23	108.23	115.90	57.95
11	Jharkhand	139.48	139.48	178.68	178.68	191.36	0.00
12	Karnataka	414.33	419.38	530.77	525.71	568.42	284.21
13	Kerala	179.35	179.35	229.75	229.75	246.05	123.02
14	Madhya Pradesh	378.43	378.42	484.78	484.78	519.17	0.00
15	Maharashtra	505.78	505.78	647.93	647.93	693.89	346.95
16	Manipur	20.13	20.13	25.79	0.00	27.62	0.00
17	Meghalaya	28.77	28.77	36.85	36.86	39.47	0.00
18	Mizoram	18.54	18.55	23.76	11.88	25.44	0.00
19	Nagaland	28.05	14.20	35.94	13.86	38.49	0.00
20	Orissa	238.31	238.31	305.29	305.29	326.94	163.47
21	Punjab	103.50	103.50	132.59	0.00	142.00	0.00
22	Rajasthan	362.26	366.68	464.07	459.65	496.99	248.50
23	Sikkim	16.96	8.58	21.73	30.11	23.27	0.00
24	Tamil Nadu	283.64	287.10	363.36	359.89	389.13	194.57
25	Tripura	26.95	26.95	34.52	34.52	36.97	18.48
26	Uttar Pradesh	900.30	911.30	1153.33	1142.33	1235.14	0.00
27	Uttarakhand	54.37	54.37	69.65	69.65	74.59	0.00
28	West Bengal	381.20	381.20	488.34	241.61	522.98	246.73
	Total	**5799.30**	**5644.60**	**7429.20**	**6615.63**	**7956.20**	**2133.13**

Source: Finance commission of India

than, Gujarat and West Bengal.

Major legislative provisions of resources for PRIs

Grants of the Central Finance Commission (CFC)

Article 280 of the Constitution provides for constitution of the Central Finance Commission to recommend distribution between the Union and the States of the net proceeds of taxes of the Government of India. The Central Finance Commission, after the 73rd and 74th Amendment of the Constitution has been recommending lump sum amount to the local bodies. The 13th Finance Commission, award of which is now operative, has recommended a percentage share of the total divisible pool of resources instead of giving a lump sum in recognition of the fact that the local governments are the third stratum of government. For all the local bodies the Commission has awarded one General Purpose Grant, one General Performance Grant and a very small amount of Special Area Grant. The amount of grant will increase gradually from the first year of the award, i.e., 2010-11 to the final year 2014-15. The latter, as the name indicates, will be released based on performance from the second year of the award, i.e., 2011-12. The PRIs of the state should fully draw and utilize the allocated amount; which requires continuous monitoring by the State Government as well as the PRIs (see **Table1**).

State Finance Commission (SFC) and state level funding provisions

An important provision made in almost all the State Panchayat Acts is constitution of a Finance Commission by the states once in five years in conformity with Article 243(I) of the Constitution. SFC is expected to study the financial requirements and determine the quantum of grants-in-aid to be given to PRIs. A majority of the SFCs recommended individual tax sharing albeit the sales tax revenue, which was an elastic and buoyant source of revenue for the states. Another point is that the major states were enthusiastic in constituting FCs but to a limited extent took action to implement their recommendations. In other words, the states were not in favor of making PRIs fiscally autonomous and stronger institutions.

With regard to other financial powers of the PRIs, the states in their Panchayat Raj (PR) Acts have made various provisions. The Ministry of Panchayat Raj (MoPR), Government of India, has listed 24 taxes and duties entrusted to village/gram panchayats by various states (MoPR, 2004). The most important among these are property/building tax, vacant land (other

Table2: The share of OSR of PRIs in compare to total revenues in major states (in percentage)

States	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Andhra Pradesh	22.8	19.7	20.4	18.6	20.5	19.4
Assam	1.5	0.8	0.7	0.5	0.5	0.9
Bihar	0.0	0.0	0.0	0.0	2.0	2.7
Chhattisgarh	3.8	3.6	3.1	2.1	.1.5	1.0
Gujarat	1.6	1.6	2.5	1.5	1.6	2.0
Haryana	51.3	48.3	59.7	42.5	41.6	29.2
Himachal Pradesh	6.2	3.8	3.7	3.0	2.8	2.6
Jharkhand	1.8	1.7	1.9	0.4	0.2	1.7
Karnataka	1.5	2.4	1.6	1.7	1.8	2.8
Kerala	13.5	11.8	11.8	12.0	11.4	8.8
Madhya Pradesh	17.5	21.7	7.2	5.2	1.6	1.5
Maharashtra	5.9	7.8	6.2	4.9	4.8	4.9
Orissa	1.1	1.0	1.1	1.0	0.6	0.6
Punjab	31.3	34.8	34.2	23.4	15.7	20.2
Rajasthan	6.3	6.5	4.3	3.8	4.5	4.4
Tamilnadu	9.5	7.7	7.9	8.3	8.0	6.1
Uttar Pradesh	4.6	3.6	3.5	2.9	3.7	3.7
Uttarakhand	8.5	10.4	10.2	7.0	5.4	0.1
West Bengal	5.0	5.7	5.9	3.7	4.8	-

Source: NIPFP, 2011

than agriculture land) tax, tax on advertisements and hoardings, profession and entertainment tax, factory tax and various cesses. In a few states, powers have been given to intermediate and district level panchayats to raise revenues and these are mainly in the nature of assigned revenues such as mineral cess, land/local cess, surcharge on stamp duty, entertainment tax etc. Yet, in a few other states, certain taxes such as motor vehicle tax, entertainment tax, professional tax and stamp duty are shared with different tiers of PRIs. Further, the panchayats are empowered to raise non-tax revenues from their own properties and assets such as rent from shops and buildings, auction of trees and fruits, sale of assets, fee on pilgrims and fairs, grazing lands and mandies (markets) and license fee etc. (Babu, 2009). Apart from these, provisions for statutory and discretionary transfers and borrowings have been provided.

Own source revenues of PRIs

As discussed earlier, PRIs have the power to collect tax on land and buildings (only by the Gram Panchayats) and to levy tolls, fees, user charges etc and those bodies may also own economic assets like land, trees, markets, water bodies etc from which they may earn revenue. Panchayats may also receive donations. All such revenues collected by the Panchayats as tax or non-tax are known as the Own Source Revenue (OSR). Since OSR is the own collection of the Panchayats it is very valuable in the sense that such fund may be utilized by the Panchayats to meet their priority needs and there should be drive for augmenting OSR. Total collection of revenue (see **Table2** on previous page).

However, even in some states where decentralization is believed to have generated from roots namely, Karnataka and West Bengal, only a small fraction of revenue of rural local bodies is raised by themselves. It is also important to talk about the states, where the panchayats have relatively performed better in resource mobilization. In states such as Punjab, Kerala and Haryana the own revenues of PRIs in their total revenues were encouraging. Though the dependence on transfers is high in most of the states and a large part of the expenditure gets determined by various tied funds from the higher levels of governments. This is clear from the table. Apart from few states, status of own source revenue generation for PRIs is dismal.

Mobilization of resources: A challenge at the local level

Lack of people participation

The Indian Panchayati Raj System can be viewed from two dimensions, i.e., economic and political. Since the inception of Panchayati Raj Institutions (PRIs), there has been political decentralization through devolution of powers, primarily to carry out development programmes at the grass root level. But economic decentralization has not taken place in the true sense because much of the rural development programmes are being carried out as Centrally-sponsored schemes. Here, it has to be mention that most of the beneficiary selections of these centrally sponsored schemes are now determined by prefixed list by top-down method which itself negates the idea of participatory model of decentralization. Thus, the role of PRIs in selecting beneficiaries at the local level has been curbed in recent times. It has created an adverse effect in managing resources at the local level. Avoiding Gram Sabha and Gram Sansad meetings for beneficiary selection made an adverse impact on decentralized roles of PRIs in some cases. Lack of engagement with people at local level hampers the core idea of participatory democratic structure of rural local governance.

Excessive dependence on Central or State level schematic grants

Local governments in most countries have limited local taxing powers from which to finance the services assigned to them. India is also not an exception. As a result, service levels fall far short of what is required. Local revenues are often limited to a few visible (and hence unpopular) taxes that are difficult and expensive to collect, inequitable in impact and economically distorting. Whilst major urban centres may be able to generate significant revenues from property taxes and levies on businesses, in rural areas there may be little to tax. Increased local revenue mobilization often involves coercive extraction from the poor As a result; many local governments depend heavily on transfers from the centre, which are often allocated in inequitable and non-transparent ways. This dependence on the centre (and in some cases on donors) undermines the accountability of local governments to local voters and tax-payers.

The PRIs have to act according to the directions of the higher levels in spending the money given to them. Thus, the role of PRIs in the development process gets reduced. In recent time, huge allocation in schemes like MGNREGA, BRGF and other specific area development funds are given to PRIs to implement specific tied works with strict guidelines from the higher levels. PRIs, thus only become mere implementing bodies rather to plan and execute their need accordingly.

In the Indian context, decentralization to rural local governments is meaningful only when the panchayats have adequate untied funds to provide public services assigned to them. Untied funds would imply that either the panchayats should be able to raise tax and non-tax revenues from the sources assigned to them or higher level governments should provide unconditional transfers by way of share in taxes or block grants.

The way forward

Expanding Tax Base for three-tier PRIs

Fiscal decentralization to rural local governments in India is meaningful only when the panchayats have adequate untied funds to provide public services assigned to them which require the assignment of tax powers. This paper shows that revenue mobilization by rural local bodies is abysmally low. The assignment does not include any important revenue handles and the panchayats are not able to exploit properly even the only notable tax base assigned to them – the property tax. (Rao, 2007)

Strengthening public accountability: People participation for resource mobilization

Strengthening public accountability is emerging as a key strategy for improving public services and making progress towards attaining the Millennium Development Goals all over the world. Over the past few decades, the process of democratic decentralization in many parts of the world has provided new opportunities for citizen participation and the development of civil society. The Brazilian experience of participatory budgeting (PB) offers one of the most significant models. (Devas, 2005) Impact of engaging people at the local level in the process can be manifold. It is always preferable to encourage people's participation in decision making process at the PRIs. People can be part of the entire process of financial management of village level organization. One way it can bring transparency at the whole process. Gram Sabha is already constituted for this purpose. Major significant decisions regarding allotment and expenditure of a gram panchayats can be shared in these meetings. In paper these practices are already in place in some states. Though in real it is doubtful whether it has been carried out in the same way as desired.

Conclusion

It is high time to relook the policy on delegating resources from upper tier to PRIs. If we really want to achieve the goal of self sufficient local governance, some taxation powers should be given to local level rural governments. For example, starting this experiment with relatively better performed states in mobilizing own source revenues. It is nevertheless important to assign clear and productive revenue handles to PRIs, empower them with capacity to administer and enforce the tax and institute an incentive system so that the elected representatives are not left with the choice of not collecting the revenues and continue the syndrome of fiscal dependency. Engaging people at the grass root level in process can also be an important tool as the real accountability rests with the people after all.

It is important to empower PRIs with the capacity to administer and enforce tax and set up an incentive system so that the elected representatives are not left with the choice of not collecting the revenues and continue the syndrome of fiscal dependency

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FINANCIAL STABILITY OF PANCHAYATI RAJ INSTITUTIONS: THE INDIAN CONTEXT

This discussion seeks to highlight some of the important issues that could have brought major achievements in transforming India's rural economy, but have not yet realized the objectives

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The Issues

The Gram Panchayats, Panchayat Samitis and Zilla Parishads are but three tiers of the Panchayati Raj institutions drawing on the hallowed ideas of Mahatma Gandhi on Village Self-Sufficiency. The relevance of the proposition owes itself to the fact that India lives in her villages and the villagers are long known to have languished on the verge of dire subsistence. Taking the cue from Abraham Harold Maslow's famous proposition of need hierarchy, the imperatives of rapid growth of agriculture and farm-related activities called for provisions for regular and systemic employment of people in the rural sector and generation of income of the rural people, improvements in rural infrastructure and better education, housing and healthcare systems – elements that admittedly contribute to better ways of living. Though rather late in the day, the realization that the uplift of villages held the key to stalling large-scale migration of people to the cities for livelihood, the Government undertook measures that could answer the long-gnawing problem of poverty, lack of opportunities for gainful occupation and employment and miserable living standards that came in the way of the country's overall progress. The five year plans initiated since 1951 recorded signal progress though it was considered that the thrust of development centred on capital-intensive projects and on the cities more than on the outlying areas. The Panchayati Raj Act of 1973 has had very laudable

Though it was realised that the uplift of villages held the key to stalling large-scale migration of people to the cities for livelihood, things did not actually work out that way

objectives several provisions of which generally go unnoticed or undermined. The high potency of the Act was not realized at that time and the build-up of institutions that the Act envisaged evinced at best half-hearted enthusiasm. In fact, the politics of control over the institutions claimed the upper hand than their effective and purposive management that could yield results. The implementation of various provisions of the Act has not only admitted of statewise diversities in approaches and implementational seriousness, but also varied responses within each state. Not all areas have shown uniform resoluteness in terms of readiness to go by the proddings of the Act, different planks of which are sought to be highlighted at appropriate places hereunder. One of the major problems relates to orientation, closely followed by an absence of a steady flow of funds – both in and out.

Financial stability

Financial stability does not underline just the inflow of funds from various sources but also effective deployment of such funds towards the development of the rural economy. This discussion seeks to highlight some of the important issues that could have brought major achievements in transforming India's rural economy, but have not yet realized the objectives. The proverbial trickle down of money sanctioned by the Centre under various heads of rural development and the money actually received at the points of occurrence of such development and much of the sanctioned grants of money from the Centre being returned unspent are yet not too old to vanish from public memory. These being the context, the transformation of the picture of abject poverty to one of better ways of living of the rural people has called for a new orientation altogether. The first and foremost problem is of the right orientation towards development – an issue that has for long remained a lip-service with the funds received and their proper and responsive utilization, responsive in the sense that funds from the Centre and the State have all had a tag attached. The tag is about the receipt of funds for specific plans and programmes to be utilized for these purposes only without any diversion of such funds for other purposes. The synchronous movement of the Gram Panchayats, Panchayat Samitis and Zila Parishads, on one hand, and the involvement of the multitude of the rural population, on the other, have remained a sine qua non for success of the *en masse* movement towards development. With the promise of assistance from the State in all matters of socio-economic development, Panchayats have already been in the process of becoming effective causatives for development, albeit numerous hurdles still remaining on the way. To make meaningful, financial stability has to dynamic, arising from a system that is ongoing and marked by a steady stream of inflow and outflow of funds used for productive purposes. Organized activities resulting in both investment of funds for productive purposes and economic returns arising therefrom actually keep the whole process in a running order. The prime factor here is that activities organized should result in generation of income, as a regular and systematically revolving cycle. Boost in both of this would necessarily result in acceleration of both-way traffic of money, but with the resultant imprint on the series of activities generated. To know and judge the truth in the two-way traffic would demand insight and expertise.

Area of major concern

A major issue in this context is to assess what the Panchayats in all their three incarnations have so far been able to realize in this behalf vis-a-vis what has been expected of them, in terms not only of expenditure incurred but also of the results achieved during all these years. Application of different performance criteria calls for defining them in the first place, and then gauging results on the basis of each of them. All this would require identification of self-generating sources of funds as regular and systematic, provided of course that these are properly identified, quantified in money terms and assessed in both physical and money terms. The unutilized human capital would have to be accounted for and avenues created for proper deployment of such capital in terms of utilization of innate capacities. Funds generated from within and inflows from outside would call for disaggregation with particular reference to the tags attached to some of them. Proper accounting for all these funds would be a must. Effective deployment and assessment of the effectiveness of the funds coming from all different sources would require classification accordingly. In the recent past, instances have not been rare when funds sanctioned by the Centre and also the States had to be returned unutilised, mainly due to the lackadaisical attitude of the Panchayats with internal politics ruling the roost! Play of umpteen shenanigans had also been reported in the press, ultimately made light of and suppressed by the political bosses. Indeed, politicization has been one of the major deterrents to the progress of the Panchayats for a long time. All at the cost of the growing distress of the people living in the villages. What a pity. The saving grace is that the Act of 1973 does provide a comprehensive outline of do's and don'ts applicable to Gram Panchayats that make for an effective mechanism for turning them into self-sustaining, perpetual institutions having an identity of their own. Apart from the provisions in the enactments on Panchayati Raj Institutions, little attention has been given towards their healthy functioning for attaining a laudable goal. In fact, large scale politicization of the Panchayats in all their incarnations has resulted in their shifting their focus on minor issues of acquirement of control rather than on organized attempts towards uplift of the vast expanse under their jurisdiction. Rural development is a comprehensive programme undertaken by the Centre and States. If funds made available to Panchayats are left unutilized or are misused by transferring to other heads, both Panchayats and the state suffer. Detailing out the sources and uses of funds is thus a must, for on it would depend the grant of further funds from the named sources, for instance, the MGNREGA. Indeed, many of the State's Panchayats failed on this count.

Sources and uses of funds

The Act makes for a detailed programme of financial powers of the Panchayats including, an elaborate description of the powers to levy taxes and duties and the manner and method of both collection of funds and disbursements for various purposes. The idea of self-generation of funds is unique in many ways and properly pursued, it can, and it actually does in practice, initiate a process of development within the areas under their jurisdiction. Different areas have been indicated where the Panchayats can step in for the realization of the avowed objectives of a) self-regulation; b) self-generation of income; and c) deployment of funds for realizing multi-pronged objectives of maintenance of staff, disbursements for heads of expenditure stated in the Act; and d) contribution to rural development in all its facets. The development work in the rural sector starts with the assessment of the available resources – human, material and infrastructural - and properly classifying them and deploying them for acting as a driving force towards realizing objectives. The Panchayats armed with a concrete support of the law are in a position to act as virtual growth engines. The Act, though, is embracive of multi-pronged functions of which the semi-judicial and administrative functions are quite prominent. These are, however, de facto cost and profit centres subject to empowerment envisioned by the law with express limits up to which they can go. Overt and specific limitations on the discretionary powers impose some restrictions on the marshalling of resources, on one hand, and highly demanding areas of focus of policy and organized action, on the other. In addition, for various development purposes, funds received from different external sources – both Centre and State - call for exercise of discipline with respect to time-bound expenditure for specific purposes. For a long time a lax attitude ruled the scene with the political bosses seeking to acquire more and more power and benefit from it. The real potential of the Gram Panchayats as organizations remained largely a matter of guess. That they had the capacity of turning the corner was largely unknown and untested. The last couple of years have witnessed a paradigmatic shift with growth and development as the passwords. Their strengths gradually started taking shape in the work responsibility assigned to them.

Paperwork

The paperwork involved in all this is considerable and the Panchayat administration is expected to keep track of all this and submit returns of both receipt and expenditure so that the flow of external funds remains uninterrupted and regular. This responsibility is much more than keeping track of the events taking place, because this is reflective of the actions organized under each of the programmes for which funds are mobilized with indication of progress under each. Records keeping on all this is a regular and systematic responsibility the discharge of which acts as a load but the success on this front tells on the achievements of the Panchayat during a specified period. Professionalization on this front is a crying need but as yet, has not received as much attention and emphasis as it needs, especially because there is no commercial motive as a guiding factor. Panchayat accounts and audit have already acquired the status of a specialism. Installation of personal computers in each Panchayat office and training local personnel for their efficient use on a regular and systematic basis should be coupled with internet facilities for better connectivity. All these are better said than done, changeover to a more sophisticated system does not appear easy and smooth. Curiously, even now, handwritten statements of receipts and payments rule the day, often with alterations without authentication. For this purpose in-house elaborate training programmes appear imperative. However, Panchayat administration must show the readiness to be equal to the demanding tasks it is called upon to perform. Planning the financial inflows and outflows, needless to stress, requires a professional touch. Mere accounts keeping, though essential, would not be enough. A detailed description of the expenditure incurred on different schemes undertaken periodically by the Panchayats on their own, would call for all tenets of sensitive cost and management accounting techniques and processes brought into play. This is possible when, and only when, persons entrusted with the specific jobs are adequately qualified, trained and duly oriented to the tasks and responsibilities. In this context, one has to take into consideration the inevitability of gradualness for getting into the desired mould but this is not unlimited. Costs incurred and benefits derived called for proper assessment to open up, so to say, many new doors of perception. One noticeably missing factor in this respect is the art of appreciation. In the rural sector, till the other day monetization was an unknown element; even at present, monetization has remained a rather unwelcome addendum. Gram Panchayats, that way, have brought in a whiff of fresh air.

Now it is their responsibility to keep it going by their devotion towards climbing up the steps of the need hierarchy as pointed out earlier.

Panchayats as institutions

The major part of the noise, while considering Panchayats and their work, relates to the upper layer where the elected representatives are required to decide on policy regarding the numerous issues involved in overall, day-to-day activities of these institutions branching out in matters related to administration of justice in resolving disputes of various kinds; imposition and collection of taxes, as stated earlier, assessment of the available resources – both human and material – and their effective utilization, remaining in touch with the Panchayats, Panchayat Samitis and Zila Parishads according as desired in the Act of 1973. Their political colour apart, the requirements of the onerous job would demand utmost attention. The remnants of half-hearted attitude even now rule the roost. The second part, the one of major concern, would concentre on the revenue yielding activities organized under the Village Panchayats, with particular stress on a scientific assessment of the already available resources, resources that can be developed through exploring various alternative approaches, preserving them, possibly even processing them, and selling them for profit, through the participation of the members. One remembers in this context the processing and preserving of fruits and vegetables in airtight packages, pouches and other ways. Indeed, many varieties of fruits are famous in different states in the country which have high market value but relatively unexplored at present, both in the domestic market at outside. Enhancement of income of the people and, in turn, of the Panchayats themselves, should be possible with relatively little effort. This is but an example of the urgent need for developing the rural resources of various kinds and contents both for local consumption and sale. Many villages throughout the country are famous for their skill and expertise in different trades and have the natural resources and knack but at present the people concerned languish because of lack of interest, passivity of outlook and marketing ability. This approach has the potential of generating employment and income, provided such people are given the necessary assistance for making their efforts fruitful and rewarding, in an essentially uncongenial atmosphere.

Existing prospects require further exploration

All this is mentioned to underline that the existing prospects of generating income require tracing, identifying, developing and nurturing. This discussion stresses the urgent need for resource mapping of every village under the Gram Panchayats, stressing the areas which require some tending and mending to make their creative efforts rewarding. This is, however, one of the several planks of activities that has the potential of generating income and employment. Not only that the people concerned are increasingly made busier in more and more fruitful and constructive work, the Panchayats themselves benefit from the taxes levied by them on the income generated from such constructive activities, but also that they can make available both inside and outside expert service towards betterment of quality of the products and services, processing them and even marketing them within the country and abroad on the basis of organized market surveys. These activities can be fruitfully organized with funding from both nationalized and private banks on one hand, and NABARD and the Cooperative banks, on the other. State Governments have been generally quite lenient in funding for rejuvenation of the village economy. These sources and uses of funds would require accounting for each individual segment of activities both with regard to loans received and repaid. In all, each household in a village would have to be seen as an activity centre naturally. Panchayats would have the responsibility to ensure that commitments to the lending institutions are met duly. Two points are important here. First, the loan funds would have to come in cost-effective doses. This would require efficient assessment of funds required for the tasks in view. Second, application of own funds and loan funds coming for specific purposes, or even periodic grants coming from the Centre and the State Governments as also other bodies within and outside the country, should be shown discretely so that audited statements therefor could be submitted for showing compliance, not only with respect to incurring expenditure, but also the results obtained. Such statements are useful even as practical guidelines for better conduct of affairs.

Undying entities

Panchayats, in all their incarnations, are statutory bodies with perpetual succession. It is absolutely essential that their fate does not become like that of Ashwathama after Lord Krishna took away the gem from his forehead. The Panchayats do not die naturally, nor do they exist only for rendering a specific service, after which they die. As de facto , going concerns, Panchayats, have to derive sustenance from their activities. This means that their financial stability has to be generated mainly from their activities either assigned to them from outside or engineered by themselves, as laid down in the cognate legislation whose products they are. This further underlines that even if the funds do not come from State or Central coffers, they have to continue performing their assigned tasks and responsibilities. It is only their financial stability which ensures their functional con-

LONG BACK WE UNDERLINED THE NEED FOR STRENGTHENING THE PANCHAYATS AS JURISTIC ENTITIES THAT REQUIRED SUPPORT AT THE INITIAL STAGES TILL THEY CAME TO THEIR OWN

tinuity. Our scrutiny of the legislation, as also some cases in the nearby districts, in this behalf underlines that the main factor of financial stability itself ensures infusion of discipline to take proper care of the other areas of focus in their span of responsibilities. It is relevant to point out at this stage that laying emphasis on Panchayats as institutions has had some critical support from outside bodies that render financial assistance to implement various programmes, especially stressing Gram Panchayats,which work at the ground level, on the basis of their performance The frame of activities of Panchayats must necessarily be oriented towards rural development in real terms. Taking benefits of modern technology, Panchayats have a span of activities spread out covering all the criteria Abraham Harold Maslow specified as need hierarchy, referred to earlier. Uplift of the rural economy being the primary objective, functional dynamism should ensure that the curse or poverty caused by lack of funds does not visit the rural economy. Not an easy task by any count, but not impossible either. We have for long held the view that Panchayats should be seen as institutions having an independent identity that called for nurturing, equipping them with all the resources – human, financial and managerial – required by them for executing the tasks institutions could do. For a long time these institutions have looked for a harder ground to stand but heavy politicization came in the way. What these institutions can do in all spheres of the objectives set for them would naturally ramify gradually, as if to answer the ILO raising issues in its study, *Why Labour Leaves the Land*. That for a better living, people in villages would not have to rush to cities is gradually coming to fruition, in all its splendour. Some day, somehow, good work has a natural knack of coming into notice of those who matter. If such recognition comes from an international agency like the World Bank, so much the better. This is what has happened: a shot in the arm coming in recognition of high quality work that is being performed with the Gram Panchayats in West Bengal under the current regime with the active assistance of the State Government. There is no doubt that a right start has been made in this direction and several watchful eyes are casting their glances on how the Panchayati Raj institutions have been wriggling out of the morass in which they remained mired for long.

A shot in the arm

It is appropriate to refer to a report that appeared in The Statesman, Kolkata, on 30th October, 2013, in the aforestated context that:

The World Bank provides performance-based incentive grants to the 1,000 Gram Panchayats participating in the project on per capita population ratio for expenditure on local public goods and services on the basis of an Annual Performance Assessment, a process undertaken by and external consultancy firm between August and October, 2013 which reported that 960 GPs qualified on the basis of their performance compared to 792 in 2012. As a mark of appreciation, the World Bank has allowed extension of capacity building support to 1211 new GPs, spread over different districts. On an average, each qualified GP would receive an amount of Rs 30.64 lakh as block grants for the implementation of planned activities for the financial year 2014-15.

The Institutional Strengthening of Gram Panchayats project of the World Bank subscribes to our viewpoint. Incidentally, long back we underlined the need for strengthening the Panchayats as juristic entities that required support at the initial stages till they came to their own, well past their nascent stage. Gram Panchayats in many a case have proved their mettle. MA

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FINANCIAL STABILITY OF PANCHAYATI RAJ INSTITUTIONS NEED OF THE HOUR

With the decentralization and devolution of functions, functionaries and funds to PRIs, social audit has become inevitable and their financial stability require urgent attention

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GANDHIJI HAD ENVISAGED A VILLAGE AS A COMPLETE REPUBLIC, INDEPENDENT OF ITS NEIGHBOUR FOR ITS VITAL WANTS, YET INTERDEPENDENT, FOR MANY OTHERS IN WHICH DEPENDENCE IS A NECESSITY

Historical background

Grassroots Democracy is neither a new concept nor is it an expression of western political thought operationalized in Indian soil. The origin of grassroots level democracy dates back to the Vedic Age and has been fairly well documented in ancient scriptures such as the Rig Veda, Aitareya Brahman, Panini's Astadhyai, Kautilya'sArthashastra, inscriptions in Ashokan Pillars and the writings of Buddhist and Jain scholars. According to Ramayana 'Pur' and 'Janpad' and 'Gram' according to 'Shanti Parva' of Mahabharata were the unit of administration. The available literature clearly points to the fact that republics functioned and elected representatives participated in Janpadas (regional bodies), PauraSabha (city councils) and Gram Sabhas (village assemblies) in ancient India.

During British rule, local Self Government in India began with the establishment of the Madras Corporation in 1687. The most notable contribution in the field of local Self Government in India during British Period is of Lord Rippan (1882) who is called its Jather. These panchayat institutions were unable to function effectively due to organizational and fiscal maladies. However, with the emergence of Gandhiji on the political arena, grass root level democracy slowly started regaining importance. In his article (*Harijan*, 26 July, 1942) on Village Swaraj, Gandhiji had envisaged a village as a Complete Republic, independent of its neighbour for its vital wants, yet interdependent, for many others in which dependence is a necessity.

In the Indian Constitution, Local Self Government is the subject of the State. In accordance with the desire of Mahatma Gandhi, the provision for Panchayati Raj was made in Article 40 of the Constitution, under the Directive Principles of States Policy to "organise village Panchayats as units of self-government." It received a major thrust in 1956 when the National Development Council appointed a Committee under the Chairmanship of Balwant Rai Mehta to suggest measures to strengthen Panchayat Raj system. Its report in 1957 recommended:

- A three-tier structure consisting of the village at the bottom, district at the top and an intermediary structure in between;
- Genuine transfer of power and responsibility of these institutions;
- Adequate resources to all Bodies to enable them to discharge their responsibilities;
- That all social and economic development programmes be channelized through these agencies; and
- That a system be evolved to affect further devolution and dispersal of power.

These recommendations were accepted in 1958, which paved the way for the establishment of a three – tier Panchayat Raj system in the country. The three – tier Panchayat System consists of Panchayats at village level, Panchayat Samitis at block level and Zila Parishad at the district level. Rajasthan was the first state to adopt Panchayat Raj on October 2, 1959. This was followed by Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh and West Bengal.

In 1977, the Janata government appointed a Committee under the Chairmanship of Ashoka Mehta to review the working of Panchayat Raj institutions. It recommended for a two – tier Panchayat System Consisting of Mandal Panchayats at the basic and Zila Parishad at the top, giving the Panchayats power to levy taxes; setting – up of a Social Justice Committee in each Zila Parishad to protect the interests of deprived sections and participation of political parties in the working of Panchayat Raj. These recommendations, were however, not accepted by the government.

In July – August 1989, the Congress (I) government under Rajiv Gandhi introduced a Constitutional amendment bill with a view to streamline the Panchayat Raj. The bill was, however, defeated in the Rajya Sabha. The National Front government announced that greater power would be given to the rural democratic institution to make them effective bodies.

The 73rd Constitutional Amendment

The landmark in the history of local Self Government in India are the 73rd and 74th amendment in the Constitution of India in 1993. The 73rd amendment is concerned with the rural local government and 74th with the urban local government. These amendments have provided strong base to the local self institutions. The most notable contribution of the 73rd amendment is the recognition of the common people, who are voters and constitute the Gram Sabha in every village panchayat area. This is the extension of democracy. The 73rd Amendment Act which aimed to give institutional status to the Panchayat Bodies finally came into force on April 24, 1993. The salient features of this Act are:

- To provide three – tier Panchayati Raj (i.e. Panchayat at village level, Janpad Panchayat at tehsil or block level and Zila Panchayat at district lavel) for all states having population of over 20 lakh,
- To hold panchayat elections every five years,
- To provide reservation of seats for Scheduled Castes, Scheduled Tribes and Women (not less than 1/3rd of total seats),
- To appoint a State Finance Commission to make recommendations regarding financial powers of the Panchayats, and
- To Constitute District Planning Committee to prepare draft development plan for the district as a whole.

According to the constitution, the Panchayats will be given powers and authority to function as institutions of self – government. The powers and responsibilities delegated to Panchayats at appropriate level are:

- Preparation of a plan for economic development and social justice,
- Implementation of schemes for economic development and social justice in relation to 2a subjects, given in the 11th schedule of the constitution, and
- To levy and collect appropriate taxes, duties, tolls and fees.

Decentralisation for successful working of democracy

The year 2009 marked fifty years since Nagaur in Rajasthan saw the foundation of Panchayati Raj institutions being laid in India. Fifty long years in which this institution has grown from strength to strength, bringing a large community of hitherto left – out people into the folds of governance. Fifty long years that have helped us rediscover the collective strength of the people at the grassroots after we almost lost it under the torturous period of subjugation by the British. The successful working of democracy depends upon democratic decentralisation which aims at associating the people with the administration at the grass root level. The Panchayati Raj allows people to formulate and implement their own plans at different levels.

Local self-government can broadly be divided into two parts i.e. urban and rural. Corporations, Municipalities and Nagar Panchayats are for urban areas while Panchayati Raj system is for rural area. Both of them are essential part of democratic administration. According to Lord Boyce these are the "best School of democracy and the best Guarantee of its success." These institutions lighten the burden of the Central and State Government; provide training ground for the political leadership, and management of local affairs. Local institutions are also the laboratory to experiment and examine the policies of the Central and State Government at micro level.

The Panchayat Act, 1996 extends Panchayats to tribal areas of 8 states namely, Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Odisha and Rajasthan. This came into force on December 24, 1996.

The 73rd Amendment Act gives institutional status to Gram Sabhas. It is the forum where the marginalised poor can influence decisions affecting their lives. It plays key role in bringing transparency in the functioning of Gram Panchayats, in ensuring equitable distribution of benefits, in creation of Community assets where these are needed and in bringing about social cohesion.

THE 73RD AMENDMENT ACT GIVES INSTITUTIONAL STATUS TO GRAM SABHAS. IT IS THE FORUM WHERE THE MARGINALISED POOR CAN INFLUENCE DECISIONS AFFECTING THEIR LIVES. IT PLAYS A KEY ROLE IN BRINGING TRANSPARENCY TO THE FUNCTIONING OF GRAM PANCHAYATS, IN ENSURING EQUITABLE DISTRIBUTION OF BENEFITS

Functions of the three-tier system of Panchayati Raj

Panchayati Raj is an age-old institution of Indian village, which ensures the direct participation of people at the grass root level. The needs and aspirations of the people are being taken care of, at the local level. Functions of Village Panchayat covers areas of

- Agriculture
- Land improvement
- Implementation of land reforms
- Land consolidation
- Minor irrigation
- Water management
- Animal husbandry, dairy and poultry
- Fisheries
- Social forestry
- Promotion to small scale industry
- Rural housing
- Drinking water
- Roads/Bridges
- Rural electrification
- Poverty eradication programme
- Education – primary and secondary
- Markets and fairs.

Main functions of Janpad Panchayat, at Block level, divided into wards are

1. Coordination and integration of economic and social development plan of Panchayats. Janpad Panchayat submit it to the Zila Panchayat.
2. Preparation of plan for development of its area.
3. Implementation of plan and schemes of the State and Central Government through Gram Panchayats.

The Zila Panchayat standing at the apex of the three – tier structure is the highest development agency of the rural area of the district. It prepares plans for the economic development and social justice in its area. It coordinates the implementation of the plans of village Panchayats.

The Zila Panchayat coordinates the activities of Janpad and Gram Panchayats. It implements the schemes and projects of the Central and State Government. It also advises the State Government regarding

- Protection of ecology
- Social – forestry
- Family Welfare Schemes
- Welfare Schemes for destitute women, disabled persons and weaker sections of the society. It also supervises the work of various offices and exercises control over them.

Weaknesses encountered by Panchayati Raj System

- The Panchayati Raj System is yet to become the powerful organ of people's empowerment that it was meant to be. It is also a fact that the true potential of the system as an instrument of participatory governance is yet to be realized. Some of the hindrances which the system is facing are:
- Lack in political consciousness
- Caste based society
- Poverty and illiteracy
- Difficulty in imposing and collecting the taxes
- Too much dependency for financial support on the government
- Accountability
- Lack in sense of ownership and belonging
- Financial stability
- Unjustified Societal attitude towards Women.

Relevance of financial stability

The 73rd Constitutional Amendment Act is a landmark legislation which has brought empowerment of the Panchayat Raj Institutions and has ensured the transfer of power from the state to the Panchayat Raj Institutions to be exercised by the people. At the Panchayat level, there can be very imaginative and pragmatic pooling of resources and convergence of schemes which will bring larger good to the community. Micro level planning which was virtually absent hitherto enables to translate people's aspirations into need based programmes. There is a lack of professionalism in handling administrative, financial and other related issues.

The development of a strong rural infrastructure is a prerequisite for increasing productivity of land, capital and labour, improving the quality of life, and reducing vulnerability of rural power. Rural infrastructure includes irrigation structures, rural lands, bridges, water supply, sanitation, rural energy, rural market yards, education, health, communication and information technology. Investment in rural infrastructure creates new economic opportunities and activities, generates additional employment and income, and facilitates and improves delivery of other rural services. Against this background, financial stability is much in need to translate different programmes schemes and projects very effectively at the ground level for the benefit of the common people.

Financial stability may be attained via

√ Enhancing the macro – prudential functioning of panchayati raj institutions as well as

√ Strengthening micro – prudential institutional soundness through regulation and supervision.

Social audit may be helpful

Social Audit is a tool in the hand of Panchayats to promote transparency in the system by sharing information of financial as well as non – financial nature with the people and get them involve people in it. In a report submitted by the Vision Foundation to the Planning Commission, Government of India, New Delhi, Social Audit has been defined as "a process in which, details of the resource, financial and non – financial, used by public agencies for development initiatives are shared with the people, often through a public platform". Social Audits allow people to enforce accountability and transparency, providing the ultimate users an opportunity to scrutinize development initiatives.

Thomas, Kurian (2005) highlights social audit as a principle for creating universal value, identifying the pillars for Social Audit, as socio cultural, administrative, legal and democratic system which acts as the foundation for operationalizing Social Audit. The application of Social Audit at the village level holds tremendous potential for contribution to good local governance and increased transparency and accountability of the local bodies. The underlying ideas are directly linked to concepts of democracy and participation. It trains the community on participatory local planning. It encourages local democracy. It encourages community participation. It benefits disadvantaged groups. It develops human resources and Social Capital. It is a mechanism that empowers the people the ultimate beneficiaries of any scheme, programme, policy or law – to audit such schemes, programmes, policies and laws. This way, social audit ensures financial stability of Panchayats which ultimately can provide opportunities for sustained growth and development. It ensures the check of misuse of funds or benefits.

Suggested measures for improvement

The Panchayati Raj Institutions have been playing a role as institutions of local governance in the changing scenario of rural development. These institutions are increasingly recognized as the best available alternative to implement several developmental programmes and of late Panchayats are made to play a pivotal role in the planning and implementation process. For better financial position and stability a number of measures have to be adopted. Some of the suggestive measures are:

- The strengths of Self Help Groups need to be integrated for improving the capability of the Panchayats.
- Physical infrastructure also needs to be substantially improved at the Panchayat level for data maintenance, record keeping etc.
- Direct funding should also be made available for speedy implementation of programmes and financial stability.
- Better implementation of legislative measures should ensure autonomy of Panchayats to implement the policies and programmes to eradicate poverty in this country at the earliest.
- Ensuring compliance with the financial accounting as well as reporting guidelines vis-a-vis Panchayat funds and all schemes and functions being implemented through Panchayati Raj Institutions.
- Enhancing ability to generate, manage and collect local revenue.
- Credit facility at cheaper rates of interest on easy terms of payment for undertaking subsidiary occupation
- Raising transparency and accountability and minimising corruption by adopting social audit mechanism.
- Since we have a federal system the governments and political parties must show the political will to give power to the people at the appropriate levels; cosmetic actions will not work.
- Effective local resource management should be achieved through synergy of various stakeholders – NGOs, SHGs, banks, technical institutions and the government.
- Suitable implementation of the project "e-Governance in Panchayats".

Conclusion

The Panchayat enjoys extensive financial and administrative powers regarding planning, monitoring and implementation of development initiatives. The capacity building agenda must concentrate on continuous orientation of Panchayats towards development issues, constitutional mandate, rights and entitlements, utilization of human and natural resources, revenue generation and financial literacy, etc. With having 584 District Panchayats, 6,312 Intermediate Panchayats and 2,38,054 Gram Panchayats we should understand that progress cannot be sustained without social harmony.

It is hoped that the people, government officials and politicians as well as local leaders will rise to the occasion and provide clean leadership to the Panchayati Raj Institutions at all levels. People's participation is key to the effective management, development and implementation of programmes and projects. Everyone should work in a time-bound manner as well as work with accountability and in a transparent manner. With the decentralization and devolution of functions, functionaries and funds to the Panchayati Raj Institutions, social audit has become inevitable. Financial stability of these institutions require urgent attention. Let us move forward with a strong commitment for decentralized governance. There is a long way to travel!

It is hoped that the people, government officials and politicians as well as local leaders will rise to the occasion and provide clean leadership to Panchayati Raj Institutions at all levels. People's participation is key to the effective management, development and implementation of programmes and projects

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A STUDY ON PROBLEMS AND PROSPECTS OF ICT INTERVENTION IN GRAM PANCHAYAT ACCOUNTING IN INDIA

Despite the genuine problems of infrastructure and other prerequisites for e-panchayat in rural India, prospects do not seem all that grim. Governments at both the central and state levels have the vision and strategies to bridge the digital divide

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Information and Communication Technologies (ICT) can be defined as the electronic means of capturing, processing, storing and communicating information. ICT may be computer hardware, software and networks. Being a developing country, India is in need of radical change in governance and this can only be achieved by reengineering existing governance process with the help of ICT. ICT applications can enhance poor people's opportunities by improving their access to markets, health and education. The Panchayats, the rural local governments of India, serve more than two-thirds of the population of the country. Improving management functions of those bodies for better delivery of services is very important for the well-being of the rural people and for this purpose, ICT is the solution.

There is no denying the fact that rural areas often lack or lag behind urban areas in terms of essential infrastructure and services such as transportation, health, education and government services. This creates a politically and ethically unacceptable inequality of services and opportunities for rural population and prevents them from participating appropriately and fully in socio-economic and political life of the nation. Rural isolation and deprivation can negatively impact growth and certainly growth cannot be sustainable unless it is inclusive. This is especially true of a nation like India where more than 70% of population resides in rural areas and is largely engaged in low productivity agriculture and allied activities. In this backdrop, a study was undertaken for assessing problems and prospects of ICT intervention in gram panchayat accounting in India.

Significance of the study

ICT can overcome many infrastructural constraints. Information and Communication technologies are transforming all human activities, including agriculture which is the basis of rural India. One of the main reasons for the unequal distribution of economic gains between the haves and the have-nots is the gap in access to information. ICT plays an important role in bridging this gap and eventually will help in poverty alleviation. The advancements in ICT can be utilized for providing accurate, timely, relevant information and services to all the people. ICT is an influential and dynamic system which can speed up economic and social development in rural areas. Application of ICT in accounting can also be visualized in this context.

India still breathes in villages and this becomes apparent when the fact is taken into consideration that more than 800 million of its population dwells in about 636 thousand villages of this country; but even after sixty years of independence, rural India is characterized by severe poverty, illiteracy, lack of health services, lack of employment opportunities and overall backwardness. Rural areas are often regarded as information-poor and information provision has always been a vital component of rural development initiatives. Keeping in view these predominant features of rural India – Information and Communication Technology (ICT) has earned its reputation to be the key to information-flow for intensifying the development efforts in rural India and is being considered as a crucial strategy for achieving the target of sustainable rural development.

In fact, our country is going through an ICT revolution and this has become an enabling force for those living in rural India to become active participants in the growth of the country. Through ICT people in rural areas can connect with the local, regional and national economy and access markets, banking/financial services and employment opportunities. ICT also serve as an instrument of awareness creation and feedback giving rural people a voice in the nation's socio-political life. ICT can act as a channel of delivery of e-government services including health and education. Thus bridging the digital divide also bridges the overall infrastructural gap and addresses other constraints faced by rural people.

Objectives of the study

The objectives of undertaking this study can be outlined as:

- Review of the existing accounting practices followed by the gram panchayats (rural local bodies) in some selected states of India.
- Identify the present status of adoption of information and communication technology in the maintenance of accounting information by these rural local bodies.
- Frame a roadmap for the uniform accounting system for all the rural local bodies in the country with the maximum and feasible application of information and communication technology.
- Assess the problem faced by different state governments for having uniform accounting practices with the application and intervention of information and communication technology.
- Recommend improved ICT based simplified and uniform national accounting system for all rural local bodies in India curbing out all the problems the state governments are facing at present in maintaining accounting information with the help of information and communication technology.

Methodology adopted

In order to study the existing accounting practices followed by the gram panchayats in different states of India, the states in India are required to be segregated into the following three categories as:

➔ The states which have progressed substantially in the adoption of information and communication technology in the public delivery services through rural local governments including maintenance of accounts without the assistance of the Ministry of Panchayati Raj like Karnataka, Gujarat and West Bengal;

➔ The states which has already started initiative for the adoption of information and communication technology in public service delivery through rural local governments including maintenance of their accounting information with the assistance of the Ministry of Panchayati Raj, Government of India like Orissa, Madhya Pradesh and Sikkim;

➔ The remaining states which are now not in a position to adopt information and communication technology due to lack of infrastructural facilities and poor accounting and public service delivery system like Bihar and Andaman and Nikobar Islands and north eastern hill states .

One state from each category was decided to be visited. Selected gram panchayats in the state of Gujarat (being in the 1st category) were visited. For the 2nd and the 3rd category, the states of Odisha and Meghalaya were visited. Other than these three states visited from each category, the state of West Bengal were also visited to gain more information about the study.

General observations on computerising PRI accounting system

Financial management of the Panchayati Raj Institutions (PRIs) in the entire country is generally weak. The Eleventh Finance Commission emphasised on improving the accounting system of the Panchayats and also set apart 200 crore for creation of database relating to the finances of local bodies and 98.61 crore per annum for maintenance of accounts of village and intermediate level panchayats. Computerisation of accounts and other financial functions of the PRIs have the potential for improving functioning of those bodies tremendously. That also helps standardization of reporting and analysis of financial performance of the PRIs. The task is quite difficult because of the complexity, vastness and inadequacy of human and physical resources, particularly at the lowest tier. Tremendous effort needs to be made in training and capacity building of the gram panchayat employees and some of the elected functionaries. The progress will rather be slow in the initial years, but the benefits reaped by it after a few years will make it worth.

ICTs in rural governance can help in-

a. Strengthening Rural Governance: Introduction of ICT in rural India is expected to bring in changes in the whole process of rural governance by improving transparency, accountability and administrative efficiency of rural institutions, promoting participation of the poor in decision-making processes and improving the efficiency and responsiveness of rural service delivery. It can facilitate speedy, transparent, accountable, efficient and effective interaction between rural citizens - this not only promotes better administration but also saves time and transaction costs of government operations.

b. Encouraging social transformation: Access to information is of fundamental importance to any development process. The recent development of ICT is greatly facilitating the flow of information and knowledge, beyond the border of social and economic status.

c. Ensuring Better Quality of Life: Application of ICT has the potential to improve living standards of people in remote and rural areas by providing important commercial, social and educational benefits. By expanding the use of government services – ICT strengthens the livelihood opportunities for rural India. ICT can ensure a better quality of life for the rural poor with an improved access to markets, health and education – which pushes rural India towards economic development, job-creation and poverty alleviation.

d. Strengthening the information-base of rural communities: ICT initiatives may be designed to provide support to local governance as well as to react to the queries generated by local needs of the rural communities. As rural poor are often unaware of their rights, entitlements and the availability of various government schemes and extension services, ICT can also improve their access to the information they need.

e. Intensifying effort towards implementation of the rural development initiatives: For ensuring effective implementation of the rural development programmes, ICT plays a crucial role through demand driven information and communication services. It has the potential to increase the benefits and reduce the opportunity costs of people's participation in the process of rural development.

f. Enhancing people's participation in nation building process: The importance of communication in mobilizing people and seeking their willing participation in the development process of a country is well recognized. In India, this concern about reaching people, communicating with them and equipping them with new skills have been emphasized over and again in successive five year plans which provide the blue print of the country's planned development.

The development of a society largely depends on the access to information and so far in rural India ICT has greatly facilitated the flow of information and knowledge offering the socially-marginalised and unaware community unprecedented opportunities to attain their own entitlements. On the other hand, to break the vicious circle of rural poverty, to bridge the digital divide and empower the rural communities - ICT-intervention has proved its effectiveness in the sphere of capacity-building of rural communities for breaking these barriers. So, the government, technology, industry and society should work together to deploy ICT

> **THE FIRST AND THE MOST IMPORTANT DRAWBACK OF GRAM PANCHAYAT ACCOUNTING IS THAT IN QUITE A FEW STATES THE ACCOUNTS ARE MAINTAINED MANUALLY**

to accelerate economic and social development in rural areas. Hence it may be said that an integrated framework for ICT intervention in rural areas will unquestionably pave the way towards sustainable rural growth.

Major findings

Technically speaking, ICT based panchayats, i.e., e-panchayat system is web-based and n-tiered; and functions like an application service provider enabling panchayat level digital services for all stakeholders. It creates an environment in which people feel empowered, establishes a system that ensures people can easily avail their fundamental rights to information and broadens the scope of local government.

The Government of India has initiated the process to equip all gram panchayats with computers or provide access to computers with broadband connectivity. The other major component of e-panchayats would be that of capacity building of functionaries of Panchayati Raj Institutions. The infrastructure that is proposed to be created through e-PRI would be utilised for training of elected representatives about their responsibilities and for giving them functional knowledge of the schemes that are implemented through the panchayats or their statutory committees. The other major component of e-panchayats would be that of capacity building of functionaries of Panchayati Raj Institutions.

Field visits

A total of six gram panchayats in each state were visited and all the visits were completed in the months from January to August in 2013. The major findings of the field visits are:

Gujarat

In the state of Gujarat, six gram panchayats were visited in the districts of Gandhinagar, Mehsana and Ahmedabad. All the gram panchayats have at least one computer in working condition which is usually used for ROR (Land registration software) or the e-gram software. Each gram panchayat had a Talati-cum-Mantri who is responsible for making and maintaining accounts while the VCE (Village Computer Entrepreneur) is in charge of all the computer related works. The accounts in all the gram panchayats are maintained manually in Gujarati and this accounting information would be communicated to the users either in the gram sabha or in the panchayat meeting, which after being accepted would be signed by the Sarpanch (elected member) and the Talati-cum-Mantri.

A copy of these accounts are then sent to the Taluka level where online data entry is done and the accounts are prepared in the required formats and these accounts at the Taluka level are then sent to the Zilla Panchayat level. In most of the gram panchayats, the electricity supply being regular (power cuts/load shedding is very rare), there is no provision for generators/UPS. All the gram panchayats have GSWAN connectivity with private internet connection provider.

The Talati-cum-Mantri receives a formal training from the SIRD before joining the job for a period of three months where they are taught how to write accounts, how to implement rules and regulations, how to write the minutes of a meeting, how to prepare a budget etc. In short they are taught about 55 laws, 32 village forms and 18 revenue forms. They also have to clear an exam for being appointed as Talati and thereafter they are offered a 15 day refreshment training course once every two years. The Talati-cum-Mantri is the only employee in the gram panchayat whose salary comes from the State Government. The computer is password protected with the password known only to the VCE (Village Computer Entrepreneur). Regular back-up is taken in most of the gram panchayats.

Odisha

In Odisha, six gram panchayats are visited in the districts of Mayurbhanj and Anugul. In a Gram Panchayat, total numbers of employees are usually three including Executive Officer, Gram Rojgar Sevak (GRS) and Peon. In all the Gram Panchayats, there is only one computer meant for all purposes. Accounts are not maintained online in the Gram Panchayats.

Electricity supply is more or less normal, with a 2-3 hour power-cut being a common feature in the summer months. There is no provision for any generators in case of load shedding. All accounts are maintained in the offline mode as no accounting software is installed in the computers. Nobody in the gram panchayats has any idea of SWAN and there is no net connection. Computer is used only for official work. As no confidential information is kept including accounting information in the computer, it is not password protected. The executive officer is just required to maintain the cash book and related documents. Accounts are maintained by the Block office.

In fact, the Government of India has started its pilot project for the implementation of gram panchayat accounting system through PRIASOFT (Panchayati Raj Institutions Accounting Software- accounting software developed for this purpose) in Odisha, particularly in the Block named Anugul. There was a good interaction with the officials of DRDA, who are in charge of the implementation of PAMIS accounting software for the district itself and they explained in detail about the implementation of accounting software in different districts in Odisha. In fact, this state has started maintaining their books of accounts in the PRIs by following PRIASOFT. They found a lot of difficulties in maintaining accounts under PRIASOFT. Two of the noteworthy problems they have told about the detailed information they have to incorporate in the voucher recording entry which is found cumbersome for them as compared to their PAMIS software and also there is no facility for editing the transactions at all levels of accounting.

Meghalaya

No information regarding the accounting system could be collected from the state of Meghalaya because the panchayat system does not exist there.

Meghalaya has a local government system in the form of autonomous district councils (ADCs) since the Constitution of India came into force. The ADCs were constituted under the Sixth Schedule of the Constitution; they differ greatly from the three tier panchayat system that exists in the other parts of the country.

Before independence, the tribal areas were kept isolated from the rest of the country and outside the purview of laws enacted by the provincial legislature. The committee under the chairmanship of Gopinath Bardoloi recognised the need to safeguard and promote the rights and interests of the tribes while at the same time prepare them to assimilate with the national mainstream. The committee proposed for granting a mechanism of local self government for tribal areas in the form of ADCs which was accepted and incorporated in the Sixth Schedule. At present, there are ten autonomous district/territorial councils constituted under the Schedule; three being in Meghalaya.

The Dorbar Shnong is the nodal agency that undertakes the development projects in the villages. Every village has a Village Employment Council (VEC) with an identified area and boundaries. The Village Employment Council consists of every male and female heads of all households in the village. The VEC elects a secretary from among its members. The village headman/Sirdar assumes the position of chairmanship of the VEC. Most of the VECs in the entire state still practice manual mode of maintaining MGNREGS accounts. Double entry system of book keeping is practiced by the VEC. The members of the VEC are usually given a one day training programme by the Meghalaya Rural Development Society on the model of how the scheme is to be implemented and on the system in which accounts are to be maintained.

West Bengal

In West Bengal, six gram panchayats were visited in the district of Nadia, Birbhum and Coonch Behar. The responsibility of maintaining accounting records in gram panchayats usually vests with the secretary of the gram panchayat. In fact, the efficiency of the gram panchayat secretary vary widely from those maintaining the accounts using computers & doing GPMS themselves with those who are maintaining the accounts manually & not knowing about GPMS at all. GPMS is the Gram Panchayat Management System- the accounting software used in maintaining accounts in the gram panchayats and are available only in English version. Most of the books of accounts are maintained up-to-date but in some cases there are a few differences between the books of accounts maintained using accounting software and those maintained manually. Most of the gram panchayat pradhan knows reading Bengali, while a few also know reading English. However there are some gram panchayat pradhan who do not know even reading Bengali. The GPMS operator is the Secretary, the panchayat karmee or the Sahayak where most of them have not received any form of training while some have received training for three days at the district level. Internet facil-

CAPACITY BUILDING NEEDS TO BE FULFILLED IF IT IS DESIRED TO MAINTAIN ACCOUNTS IN A COMPUTERIZED FORM. OFFICIALS AT THE GRAM PANCHAYAT LEVEL NEED TO BE EFFICIENT IN HANDLING ACCOUNTING SOFTWARE TO MAINTAIN THEIR DAY-TO-DAY ACCOUNTS IN COMPUTERS

ity is available in all gram panchayats with the connection provider being either BSNL or Tata. Regular back-up is taken in all the gram panchayats and all of them agree to go online.

Problems identified

The first and the most important drawback of gram panchayat accounting is that in quite a few states the accounts are maintained manually. Accounts need to be maintained online so as to ensure transparency at the bottom-most tier of the panchayat. As a principle, public officials and civil servants have a duty to act visibly, predictably and understandably to promote participation and accountability.

The next problem is that different states use different accounting software. It becomes a major problem for the Central Government to know exactly what amounts have been incurred under certain heads like education, health etc. These indigenous softwares make the inter-state comparison very difficult. A major problem is that in some states accounts are maintained manually, while others are maintaining their accounts using accounting softwares. But the problem lies in the fact that these states are maintaining different accounting softwares and there is no uniformity in the principles of accounting followed by the states. For example in Karnataka, Panchatantra is used, in Odisha PAMIS is used and in West Bengal GPMS is used; while the Central Government wants PRIASOFT to be the uniform accounting software applicable in all states.

Capacity building needs to be fulfilled if it is desired to maintain accounts in a computerized form. Officials at the gram panchayat level need to be efficient in handling accounting software to maintain their day-to-day accounts in computers. At present, the panchayat officials have some computer knowledge in general; but if accounts are to be maintained in computerized form, not only the panchayat officials but also the elected representatives need to be given training. This training should be made compulsory for all employees and elected representatives.

Another drawback of the accounting system used in the gram panchayats is that all accounting information is not linked with the accounting system. Thus, there is an urgent need to install an Accounting Information System (AIS) that will collect, store and process all the accounting information which can be used by the decision makers. An accounting information system is generally a computer-based method for tracking accounting activity in conjunction with information technology resources. The resulting statistical reports can be used internally by the management or externally by other interested parties including policy makers, villagers and other stakeholders. An accounting information system thus should combine traditional accounting practices with modern information technology resources. A big advantage of computer-based accounting information system is that they automate and streamline reporting.

Most of the gram panchayats use single entry system of accounting particularly when accounts are maintained manually, where the financial data available is usually inadequate for effective decision making. The single entry system is unscientific and unsystematic, moreover it lacks arithmetical accuracy. Thus it should be replaced by double entry system of accounting where the chances of frauds and errors can also be minimized to a large extent.

Prospects

On the basis of Twelve Finance Commission recommendations, the Central Government had given the necessary guidelines for the adoption of different softwares in providing public delivery services including preparation of BPL Survey List and maintenance of books of accounts of the Panchayati Raj Institutions. In the Thirteenth Finance Commission recommendations, adoption of different softwares including the software named 'PRIASOFT' has been made compulsory. This software is designed mainly for the maintenance of books of accounts of the panchayat bodies under double entry system of accounting. Different states have already developed their own softwares for the maintenance of accounts of the Panchayat Raj Institutions and progressed substantially in this area. Some of the states are also taking initiatives to develop their own softwares not only for the maintenance of accounts but also for other public delivery services with the help of the National Informatics Centre (NIC). However, there are a numbers of states, which have not yet developed any software and in fact these states are not at all in a position to adopt any sort of information and communication technology for the public service delivery at this stage. This is due to the fact that either the infrastructural facilities of these states are very poor to commensurate with the requirement for the adoption of the technology or the documentation process they are following are so defective that it is difficult to covert it in a form which is required for the application of information and communication technology.

PRIASOFT is a web-based e-governance application which is a government-to-citizen as well as a government-to-government system. It addresses the monitoring of funds at three-tier Panchayati Raj Institutions (PRIs) under different account heads, on a month end basis. The future plan is to bring it from month-end basis of data capturing to the daily voucher level. It also contains the database of all Self Help Groups (SHG), and monitors the financial health of each SHG through bank savings, advance and stock position. PRIASOFT has two modules namely PRI Accounts and SHG Accounts. The PRI account is maintained under three layers of account heads: major account, sub account and minor account for all three-tier PRIs. The major account takes care of all the rural development schemes. The sub account manages accounts, bank, cash and advance at the district, block and village panchayat levels. The minor head manages inflow and outflow of fund at all the three levels. The SHG accounts provide financial status of SHGs. It has enforced financial transparency in PRI administration and provides detailed monthly financial position of each PRI by generating financial reports at state/district/block level for different rural developmental schemes.

The Central Government has clearly specified in its guidelines for the implementation of the Thirteenth Finance Commission Recommendation that basic grant can be given to all the panchayat bodies, but additional grant can be given only to those panchayat bodies who are adopting the softwares promoted by the Central Government including the accounting software 'PRIASOFT' for the maintenance of accounts of rural local bodies. The 13th Finance Commission also recommended that an additional grant (over and above the basic grant) is only to be given to those states who have adopted ICT and PRIASOFT. Thus, richer states are getting a lion's share of funds whereas poor states (which are lagging behind in ICT) are getting lesser funds. The Central Government is thinking about the implementation of national accounting system for all the rural local bodies of different states of India with a common accounting codification system. In order to achieve this objective of the Central Government, one of the pre-condition that has to be satisfied is the uniformity of accounting practices followed by all the tiers of the panchayat bodies in all the states.

Conclusion

The establishment of the e-panchayat system in every village across the country is an elaborate process. A workable system of e-panchayat warrants financial resources, computer applications, skilled human resource and political will. The primary technological factors that can impede the reach of e-Panchayat are the lack of infrastructure and trained human resources. Despite India being called the information technology capital of the world, its computer and Internet penetration are among the lowest in the world.

More than half of the rural households are still not connected to electricity. Human resource is another challenge, which can be a factor not only at the implementation level but also at the user level. Most gram panchayat representatives and villagers are not computer-literate. English is still an alien language in rural areas. Application of ICT is a political issue because it has the potential to transform the socio-political dynamics of national and local polity. Therefore, its deployment largely depends on how the political elite of the nation takes it.

Despite the genuine problems of infrastructure and other prerequisites for e-panchayat in rural India, prospects do not seem all that grim. Governments at both the central and state levels have the vision and strategies to bridge the digital divide and provide supporting infrastructure in rural areas to enhance the capacity of panchayats. In the emerging knowledge society and information revolution, panchayats should not be left in isolation. They should be provided with adequate technological resources in order to be able to play a meaningful role in the course of development. MA

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RURAL EMPOWERMENT THROUGH INCLUSIVE POLICY FRAMEWORK: ISOLATION FROM RURAL POPULATION – AN EVALUATION

This study reveals that though the government has been striving to formulate such policies to provide for overall growth of all sectors of the economy, agencies that are responsible for delivering such policy initiatives have failed

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THE Indian economy greatly dominated by the population hailing from either rural or semi urban areas has been paralyzed with the required resources and facilities essential for its growth. A number of initiatives have been taken up by the government for fostering to the requirements of the deprived group of the economy to provide them with opportunities for self empowerment which could in turn contribute towards accomplishment of objective to attain inclusive growth of all the sectors of the economy. Where few of the initiatives are kept in isolation from majority of the economic incumbents either due to their lack of knowledge or lack of development in communication infrastructure, the other sections of the society due to their conventional attitude keep these policies in abeyance following their conventional practices which make many of the policies remain either unutilized or underutilized. There is also failure experienced due to inefficiency of political bureaucrats to reach the real beneficiaries, leading to misappropriations of funds earmarked for the purpose of extending essential requirements of the rural mass. To name a few, poverty eradication programme, rural infrastructural development programmes, pension schemes for the needy and deprived, rural employment guarantee programmes etc. This study emphasizes on studying few of the important initiatives taken up by the government for rural empowerment, level of knowledge among the rural population regarding such programmes, their perceptions towards its importance and the realized benefits from such policies initiated, and the important factors (as per the surveyed group responses) which would play an important role in rural empowerment and create provisions for employment of potential resources and thereby accomplish the object of the government to provide for inclusive growth of all the sectors of the economy.

Steps for rural empowerment in India

Role of Fiscal Policies of the government and the Budget (2011 – 2012) proposals[1]

1. Create provisions for broadband penetration (Adoption of Information Technology) for the purpose of providing for financial inclusion

for inclusive growth of the economy. As per, Indian Council for Research on International Economic Relations, every 10 per cent increase in Internet and broadband connections India will be in a position to contribute up to USD 17 billion to its GDP. Government is this regard has initiated steps since 2011 to connect over 200,000 Panchayats by 2014.

2. Provide access to quality health care for achieving rural empowerment. The Budget provides for favourable allocation of its resources for undertaking rural health care programs, by providing access to modern medical aids and technology, further the rural areas are to the facilitated with access to remote healthcare solutions and telemedicine.

3. Create opportunities for the IT and infrastructure to help banks reach the unbanked or unexplored rural segments to bring the bulk of the country's population into the banking fold. Budget 2011 big budget campaign 'Swabhimaan' was initiated by the government, to promote banking and provide services to about 20,000 villages.

04. The rural industry today has been paralyzed with shortage of skilled workforce. This makes the industries; most of the times isolate themselves from growth, as they don't find there are enough incentives for them to operate in these sectors. The government has taken necessary steps in this regard to establish training institutes that would provide vocation oriented courses to impart required skills and expect by 2025, a majority of young population will be in a position to enter into these industries. Few of the initiatives by the government to promote education among the rural mass are; Sarva Shiksha Abhiyaan, post-matric and pre-matric scholarships etc.

Further, the role of rural economy is very well explained, in the words of Naresh Wadhwa (President & Country Manager, Cisco India and SAARC) as, India in the global technology map has already made its mark, and is experiencing an accelerated economic growth. However, in order to become a nation to reckon with, there are a few basic hurdles it needs to overcome in terms of broadband penetration, financial inclusion, education and healthcare.

In the words of RS Sodhi (Amul), Rural Enterprises[2] are emerging as centres for empowerment of rural economies by creating employment opportunities, providing advantages of location economies to the organizations operating there, and in turn putting the rural economies on the path of inclusive growth and sustainability. Few of the organizations hailing from rural areas have been seen on the world map of successful organizations like, Arvind Mills, Vimal, Nirma and the Zatak from Paras Pharma Ltd.

An overview of earlier works

Grabe, Shelly (2012)[3] observed that in the wake of globalization women's empowerment, human rights discourse, and women's activism within social movements can bring about transformation in structural inequities and provide them with social justice in terms of land ownership and organizational participation and thereby provide the society with progressive developments. Further such turnaround and extended opportunities created due to globalization and free reign economic system in the economy would in turn, make the women's gain power and control and increase the individual agency levels, and provide for subjective well-being and bridge the theoretical arguments surrounding human rights with the practical implementation of development interventions, and would provide for development of strategic interventions that can improve conditions for women and contribute to the aims of social justice and overall economic development.

Sharma, Anjali et al, (2012)[4] in their study witnessed how aggressive growth in population over the last half century without corresponding growth in opportunities, especially in rural areas have increased the importance of the women (constituting over 50 percent of the population) in the economic development and bring in visibility in the contribution to the overall growth and development of society, and Self Help Groups (SHGs) in this regard are acting as important means for the empowerment of poor women in almost all developing countries, including India. This study observes how extension of required skills and training and extending the financial aid can provide for inclusive growth of the rural sector by creating self employment and thereby accomplishing the objective of providing for self empowerment.

Siyao Onauphoo, Peter (2012)[5] in his study investigated on the Barriers faced by the Small-Scale Sugar Cane Growers in Kilombero District in accessing Agricultural Information in Tanzania with a Gender Perspective. With the help of survey administered on a group of 83 respondents, revealed that lack of access to the current, relevant and appropriate agricultural information in the rural areas has led to the stagnation of growth of sugar cane produced by small-scale growers. Further such barriers were due to lack of means and facilities by which information could be accessed by the farmers, and concluded that providing informational access and rural women empowerment and their involvement in the decision-making process at all stages, can facilitate the farmers in their significant contribution to the economic development of the country by providing for inclusive growth of all the sections of the society.

Fatemi, Mahsa et. al, (2011)[6] in their study identified how establishment of cooperatives in the rural areas are attracting and involving people in contribution to the economic development at the macro level. The agricultural sector being highly diverse achievement of national goals and high level of development would be unattainable without active participation by farmers, and integration attained among the farmers with the help of cooperatives leads to enhancement of the standard of living of its members. Rural production/agricultural cooperatives, with the help of their independent ruling principles, structures, networks, rules, regulations, and bylaws, (with reference to Iran), were analyzed and found that provision of support in terms of financial credits, organizational and management expertise, technical know-how and technology, equipment and training, empowerment of members - aimed at transforming them into successful farm managers, promotion of team work among members, and extraction of appropriate information and practical advice from research data with the help of contemporary investigations by the regional cooperatives help for total rural transformation and empowerment for growth.

Balachandra, P (2011)[7] in his study observed how expanding energy access to the rural population of India has become a critical challenge for the government. The study observed that, the presence of 364 million people without access to electricity and 726 million who rely on biomass for cooking indicate both the failure of past policies and programs, and the need for a radical redesign of the current system. Further the study proposed, with the help of integrated framework and adopting business principles with innovative institutional, regulatory, financing and delivery mechanisms with the help of rural energy access authorities and energy access funds, both at the national and regional levels, empowered with enabling regulatory policies, capital resources and the support of multi-stakeholder partnership can design, lead, manage and monitor the rural energy interventions. At on the other hand, trained entrepreneurs can establish bioenergy-based microenterprises that will produce and distribute energy carriers to rural households at the most affordable cost. If implemented, these programs can easily address the challenges of rural energy empowerment by creating access to modern energy carriers and climate change mitigation and thereby provide for all the energy requirement of the agriculture and the industries operating in the rural sector.

Varma, Ashish (2011)[8] in his study observed that the goal of the government to provide for completer nourishment for all the sections of the society by 2015 under its plan "Halving hunger by 2015", but the compiled statistics at pre¬sent shows very gloomy. Further the country faces the issues such as food insecurity, either due to unavailability of food and poor purchasing capacity, illiteracy, unemployment; overcrowding, poor environmental conditions and gender bias, and lack of inter sectoral coordination and political will for providing social and economical harmony among all. The study suggests that priority has to be assigned to agricul¬ture and rural development along with promoting women empowerment, ensuring sustainable employ¬ment and im¬proving environmental conditions (water, sanitation and hygiene).

Moyle L, Tracey and Dollard F, Maureen (2008)[9] in their study evaluated rural work psychology, with the help of comparative study administered between Indian and Australian rural population. This study explored various aspects of work psychology in form of personal and economic empowerment of women in rural communities by engaging women in group enterprise. Here the study identifies that, where developing countries explore entrepreneurial activity using micro-credit to overcome poverty, increase income and enhance well-being, which is not found in developed countries like Australia, and concludes that empowerment of rural Indian women engaging in group enterprise provides greater scope for inclusion and examination of indigenous women in income-generating activities within rural and remote setting.

Banerjee, V Abhijit and Duflo, Esther (2008)[10] studied the efficiency of the antipoverty policy of the government in providing for empowerment of the poor, with the help of public service delivery, microcredit and small business promotion which are seen as modest ways for social and economic empowerment of the poor. The study makes an evaluation of the research problem with the help of two initiatives, a) providing entrepreneurship among the poor – where it is observed that the median poor entrepreneur though trying his best is not in a position to expand his existing businesses where the strategies adopted by him is more for survival than for growth, b) an evaluation of a programme designed for involving poor rural parents in improving local public schools – it is found that both the rights to intervene in the school and access to funds for that purpose, despite of being made aware among the rural poor has a little response as it is learnt that the children by their parents opt to not get involved in availing such programmes.

Jeffery, Patricia and Jeffery, Roger (2008)[11] in their study observed that, the economy has moved into liberalization and has been provided with opportunities for access to better health care services with the help of participation of the private health care service providers, the rural population have remained in isolation from such services as they perceive that access to health care is their civic rights and entitlements and expect those services to the extended by the state/government, which has been a failure on the part of the government, as the State has increasingly failed to provide a safety net of emergency obstetric care and other services to the poor villagers, and has sought institutional deliveries by the private players, which the poor feel either exclusion or as indebtedness. The study concludes that 'consumers' have no capacity to regulate the quality of private health care provision - nor do the state or civil society organisations. And the rural mass critiques the state's failure to provide the health care that they regard as a citizen's entitlement. And the private health care market is accorded no greater legitimacy by its 'customers' and have remained far from providing opportunities for empowerment, and further changes in health care provision have served to dis-empower the poor and have reduced the moral authority of both the state and the market.

Lahiri-Dutt, Kuntala and Samanta, Gopa (2006)[12] in their study evaluated how the group approach in rural micro-finance among women has inspired the tendency to look at all networking as essentially good and desirable in rural community development, without acknowledging the entrenched caste, class, ethnic and religious hierarchies that lead to diversities among women. Government schemes designed for poverty alleviation among rural women have significantly influenced the concepts and models that have been successful elsewhere, but have failed to take into account the diversities of situations at the local level and further failure in adoption of Development of Women and Children in Rural Areas (DWCRA) programmes by SHG's have not allowed them to become the paradigms in developmental policies for women.

It is obvious from the above review that a number of works have been undertaken by the researchers in the past on different aspects of efficiency, of few of the rural empowerment programmes which is the broader subject of this paper. And they concentrated on one or the other micro aspect of the topic selected for the present study. However, no comprehensive work on establishing the meaningful relationship between the rural empowerment programmes and their impact on rural economic resurgence is done. Further, there are no efforts initiated to understand the opinions of the people regarding what as per them would provide for efficiency in execution of these programmes. Hence, the present study is an attempt to cover these aspects with an emphasis on how rural empowerment programmes have been efficient in reaching the beneficiaries, and the realized benefits among the number of programme developed. This study makes an attempt to contribute suggestions (in the perspective of the surveyed respondents) as to what are the essential requirements of the rural population to put them of the path of growth and development.

Sources and collection of data

The required and relevant data are collected from primary sources by administering the questionnaire to the individuals with either rural or semi urban social background. The questionnaire was designed to study the awareness and perception of rural and semi urban population towards the structured plans for development of those sectors. Other necessary materials are collected from secondary sources such as books, journals, websites, etc.

Sample design

For the purpose of the present study, 90 respondents were selected using simple random sampling method.

Objectives of the study

The study has the following objectives

1. To study the level of knowledge and perception of rural population towards rural empowerment pro-

Table1: Age and Social background of the Respondents

Age Group in Years	Social Background		Total
	Semi Urban	Rural	
21 – 25	-	25	25
26 – 30	12	10	22
31 – 35	08	15	23
36 – 40	05	08	13
40 and Above	05	02	07
Total	30	60	90

Source: Field Survey

Table2: Educational background of the Respondents

Educational Background	**Total number of respondents**
Upto PUC	12
Degree	38
Post Graduation	30
Others	10
Total	**90**

Source: Field Survey

grammes initiated by the government, and the realized efficiency.

2. To study the efficiency of the rural empowerment programmes in fostering to the requirement of the rural population.

3. To develop measures which the rural population feel essential for rural economic resurgence.

Statistical tools used for data analysis

The data was compiled using Excel, and SPSS was used for tabulating the data collected through questionnaire. To analyse the data and to interpret the analysis, Simple Percentage, Weighted Average and Rating Method are used. With these details about the objectives and methodology, an analysis is made in the following paragraphs to evaluate the efficiency of rural empowerment programmes in providing for rural economic resurgence and thereby attain the goal of inclusive growth.

Profile of the respondents

For the purpose of the study respondents of different age groups, educated semi urban and rural respondents were selected for the purpose of obtaining rational responses about the reach and the realized efficiency of the plans proposed by the government for the development of rural and semi urban areas in India. The summary of their profile (age, social background and educational background) is presented in **Table1** and **Table2**.

From the Table1 it can be observed that respondents from different age groups were surveyed and the majority of the respondents i.e. 66.66% (2/3) of the respondents represent rural population and 33.33% (1/3) represent the semi urban population. A fair representation of the sample being from rural population which was randomly selected was to serve the fundamental objective of the study.

From the Table2 it can be observed that larger representation of the sample are either with graduation or post graduation (75.55%), necessary care was taken to have a larger representation of this group of respondents with an objective to get rational responses that could help in finding more credible solution for the underlying research problem. A fair representation can also be seen in the other groups too, i.e. 13.33% with PUC and 11.11% with other educational background (either with less than PUC or other professional educational background).

Table3: Awareness of the rural empowerment programme and their social background

Sl. No	Rural empowerment programmes	Social background		Total Number of respondents
		Semi urban	Rural	
1.	Poverty eradication programme	17 (57)	45 (75)	62
2.	Women empowerment schemes/programmes	25 (83)	35 (58)	60
3.	Pension schemes	28 (93)	38 (63)	66
4.	Infrastructure development programme	30 (100)	32 (53)	62
5.	Skill development and education programme	26(87)	55 (92)	81
6.	Access to housing and other basic infrastructure	21 (70)	52 (87)	73
7.	Technology and market linkage programmes	14 (47)	21 (35)	35
8.	Access to financial and capital resources	20 (67)	25 (42)	45
9.	Rural Self Employment Training programmes	22 (73)	45 (75)	67
10	Cooperatives created through linkages with Non-Government Organizations (NGOs) and other Civil Society Organizations (CSOs)	12 (40)	58 (97)	70
11	Capacity building or community development programmes	17 (57)	31 (52)	48

Source: Survey

Note: Values shown in parentheses are percentage to total respondents, N = 90 (30 semi urban and 60 from rural areas)

Rural empowerment programmes and their awareness among the targeted group

A number of programmes are formulated by the policy makers with an objective to provide for empowerment and inclusive growth of the rural economy, which would in turn equip the rural population to acquaint the required resources and look for self employment and empowerment opportunities, and utilize the potential

Table4: Rural empowerment programmes and their contribution to rural economic development						
Sl No	Rural empowerment programmes	Level of improvement				Total Respondents
		Significant improvement	Not So Significant improvement	Fair improvement	No improvement	
01.	Poverty eradication programme	15	20	7	20	62 (1.16)
02.	Women empowerment scheme	32	13	10	5	60 (2.12)
03.	Pension schemes	31	17	15	3	66 (2.11)
04.	Infrastructure development programme	31	17	12	2	62 (2.21)
05.	Skill development and education programme	25	18	31	7	81 (1.67)
06.	Access to housing and other basic infrastructure	31	35	6	1	73 (2.30)
07.	Technology and market linkage programmes	12	7	4	12	35 (1.20)
08.	Access to financial and capital resources	21	12	11	1	45 (2.16)
09.	Rural Self Employment Training programmes	41	12	7	7	67(2.19)
10	Cooperatives created through linkages with Non-Government Organizations (NGOs) and other Civil Society Organizations (CSOs)	51	12	7	0	70 (2.63)
11	Capacity building or community development programmes	8	5	7	28	48 (0.27)

Source: Survey
Weights Assigned: Significant improvement = 3, Not So Significant improvement = 2,
Fair improvement = 1, No improvement = -1
Note: Values in the parenthesis are the weighted average values against assigned weights

resources than can provide for integration between the rural, semi urban and urban population in the path of growth and development. In this background the respondents were asked to respond to the awareness regarding the programmes designed by the government for empowering them and put them on the path of growth and development. The responses obtained are summarized and presented in **Table3** (previous page), followed by a brief analysis.

From Table3**,** the following points becomes obvious:

1) In most of the cases it can be observed that the respondents from the semi urban background have better access to information or have better knowledge than the rural respondents, regarding few of the very essential requirements extended by the government, to name a few; Women empowerment schemes/ programmes, Infrastructure development programme, Access to financial and capital resources.

2) Whereas the rural respondents are found having better knowledge and access, to few of the empowerment initiatives taken up by the government than those from the semi urban group. To name a few; Poverty eradication programme, Skill development and education programme, Access to housing and other basic infrastructure, Cooperatives created through linkages with Non-Government Organizations (NGOs) and other Civil Society Organizations (CSOs), which are considered as essential for growth these sectors. Here it could be further inferred that the government has been successful in extending better access to the rural masses the essential requirement for their resurgence and growth.

Further when the respondents were asked to respond as to among the enlisted empowerment programmes which they feel are very essential and which among them are not so essential for economic resurgence of their sectors, and the responses obtained are compile and presented in **Table4**, followed by a brief analysis.

A close evaluation of the above table reveals the following:

1. With a weighted average score of 2 or more than 2, it could be observed that rural empowerment programmes such as, Women empowerment schemes, Pension schemes, Infrastructure development programme, Access to housing and other basic infrastructure, Access to financial and capital resources, Rural Self Employment Training programmes, Cooperatives created through linkages with Non-Government Organizations (NGOs) and other Civil Society Organizations (CSOs) are playing a significant role in empowering the rural population and providing for rural economic resurgence. These initiatives by the government are creating opportunities for the rural population to acquaint required skills among these groups and look for enterprising opportunities and thereby creating self empowerment through self employment. Pension schemes extended by the government such as, Indira Gandhi National Widow Pension Scheme (IGNWPS), Indira Gandhi National Disability Pension Scheme (IGNDPS), Indira Gandhi National Old Age Pension Scheme (IGNOAPS) are making the depended population empowered and helping them to lead their own livelihood. Further programmes such as swayam rozgar yogna, and rural employment schemes are providing opportunities for the deprived to look for self empowerment opportunities.

2. With a weighted average score of less than 2 and more than 1 it could be observed that rural empowerment programmes such as, Skill development and education programme, Poverty eradication programme and Technology and market linkage programmes are considered not so important drivers for rural economic growth as many of these initiatives are still in the nascent stage and have remained in isolation for most of the people living in the rural sectors. Though these programmes are very much aware among the people (as observed in table – 3) they have not been in a position to reach all the section of the society and at large, has remained in the hands of the urban population or in some case very few from semi urban sector have been provided access with.

3. With a weighted average score of less than 1 it could be observed that, Capacity building or community development programmes have been considered to be not playing any role in rural economic resurgence. This is also due to the fact that majority of the stake holders are either not having any knowledge regarding the utilities of such programmes or are being isolated from such programmes. This is making these programmes perform below expected efficiency.

Factors considered very essential for rural economic growth: Though there are a number of essential requirement for rural economic growth, few are considered crucial. The respondents were asked to express their opinions and prioritize the most essential factors which are considered essential for rural economic resurgence. The responses are compiled and presented in **Table5** followed by a brief analysis.

Table5: Essential factors for rural economic resurgence

Sl.No	Factors	Total Number of Respondents
1.	Access to Financial resources	80 (88.88)
2.	Technological aid in assessing the productivity of land and selection of the right crop for cultivation	75 (83.33)
3.	Look for industrialization opportunities	25 (27.77)
4.	Women empowerment and poverty eradication programmes	67 (74.44)
5.	Development of rural infrastructure	90 (100)
6.	Continued access to energy resources	80 (88.88)
7.	Development of co-operatives for better market linkages and integration among the rural and urban markets	75 (83.33)
8.	Providing more opportunities for cultivation of commercial products	30 (33.33)

Source: Survey
Note: Values in the parenthesis are %ages calculated against total respondents
N = 90

A careful observation of the above table reveals the following;

1. Majority of the respondents, i.e. more than 80% opine that, factors such as Access to Financial resources i.e. providing the required financial aid for acquiring the required resources for their agricultural or industrial activities, having access to Technological aid extended by the government for assessing the productivity of land and selection of the right crop for cultivation under its Lab to Land linkages programmes, Continued access to energy resources or providing them with proper access to the energy requirements in form of wind energy, bio energy, solar energy by setting up the required infrastructure would help the rural population to be industrious in their activities

Table6: Financial incentives and their utilization by the rural population

Sl. No	Financial incentives by the government for providing inclusive growth of the rural sector	Number of respondents
01.	Funding for acquiring agri technologies	70 (77.77)
02.	Capital (Subsidy Fund) for agribased industrial development and entrepreneurial development	40 (44.44)
03.	Micro financing aid extended for entrepreneurial development	52 (57.77)
04.	Crop loans/personal loans	50 (55.55)

Source: Survey
Note: Values in the parenthesis are %ages calculated against total respondents, N = 90

Table7: Opinion regarding the rural populations dependency on financial assistance extended by indigenous bankers

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree	Total
20 (60)	42 (84)	10 (10)	8 (-8)	10 (-20)	90 (126) Weighted average = 1.4

Source: Survey
Weights Assigned: Strongly Agree = 3, Agree = 2, Neither agree nor disagree = 1, Disagree = -1, Strongly disagree = -2
Note: Values in the parenthesis are the values against assigned weighted

and can significantly contribute to the economic growth. Further, Development of co-operatives for better market linkages and integration among the rural and urban markets, and promoting the farmers for cultivation of commercial crops can help them to realize greater rewards from their performed activities.

2. Significant number of respondents i.e. 74.44% of the respondents also opine that Women empowerment and poverty eradication programmes can help the government in realizing the potential of the major section of the society i.e. women and deprived masses who can undertake to contribute significantly by undertaking productive activities by creating self employment opportunities.

03. Further, 100% of the respondents opine that setting up the right infrastructure can always provide for inclusive growth, as linking the rural markets with the urban market can help them to realize their potential optimally and thereby contribute significantly to the economic growth. Pradhan Mantri Gram Sadak Yojana (PMGSY) has been very successful in providing such initiatives.

Financial Incentives for inclusive growth of the rural economy: Government as a part of its development initiatives create necessary provisions in their annual plans (exclusive than the ones cited in its 5 year plans) to provide for growth and development of all the sectors of the economy. Many plans are formulated exclusively for the rural economic development (especially the financial programmes) as a part of its inclusive growth initiatives that can integrate the rural population with the semi urban and urban sectors growth initiatives. The respondents were asked to express their experience in terms of most availed financial incentives among their groups, and their responses are compiled and presented in **Table6**, followed by a brief analysis.

A careful observation of the above table reveals the following.

1. Among the respondents 77.77% of the respondents find that, most of the rural population seeks the assistance of the government and the institutions credit for the purpose of availing agricultural technology especially the tractors, small machineries required for their agricultural activities.

2. Where as the other financial facilities such as capital subsidies and micro financial aid for entrepreneurial activities remain unutilized or underutilized, as majority of the rural population for the purpose of availing employment are moving away from rural areas to find employment in urban areas. The rural skilled population find, the rural areas due to lack of infrastructural facilities and lack of skilled man power don't have any potential for the establishing industries and to set up industries themselves in the urban areas they lack the required resources. Hence these facilities among the rural population remain underutilized.

3. Further, looking at the crop loans and personal loans it is further experienced that most of the rural population still source and find indigenous bankers (money lenders) as credible and easy source for their financial requirement than Regional Rural Banks (RRBs) and Cooperatives. To further this argument the respondents were asked to express their opinion regarding the rural populations access to indigenous financial aid, and the summary of their responses are presented in **Table7**.

From the above table we can observe that majority of the respondents i.e. 62 respondents opine that majority of the rural population even today look towards indigenous bankers or money lenders for their financial requirements due to the easy accessibility and convenience. This is indicative of the failure on the part of the policy makers to reach the rural population with their planned projects and deliver the required aid (financial) for rural resurgence. Whereas 18 respondents are of the opinion that many of the rural communities are in a position to avail financial aid extended by the SPV's (Regional Rural Banks and Cooperatives) to achieve economies in their activities and don't move to conventional lenders i.e. indigenous bankers. With a weighted average score of 1.4 we can conclude that majority of the rural population find indigenous bankers and money lenders as the major source of their financial requirements.

The general perception of the stake holders of the rural economy is that, Lack of access to the required infrastructure and technologies are deterring the rural communities from growth opportunities. To make an evaluation of this the respondents were asked to respond their opinion regarding the importance of infrastructure in development of rural economy, and their responses are compiled and presented in **Table 8**.

Table8: Opinion regarding the role of infrastructure in rural economic development

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree	Total
40 (80)	32 (64)	5 (5)	8 (-8)	5 (-10)	90 (131) Weighted average = 1.45

Source: Survey
Weights Assigned: Strongly Agree = 3, Agree = 2, Neither agree nor disagree = 1, Disagree = -1, Strongly disagree = -2
Note: Values in the parenthesis are the values against assigned weighted

From the above table it become obvious, that majority of the respondents i.e. 80% either strongly agree or agree that, for any development to come into light, the policies initiated by the government should provide due weightage for development of required infrastructure, be it technological infrastructure, communication infrastructure, social infrastructure, so as to attract the necessary investment from the industries and attain transformation of agricultural activities, which could in turn create employment for the potential resources and thereby significantly contribute to the GDP of the country. Whereas 5 respondents are of a neutral opinion about the statement, and other 13 (14.44%) respondents either disagree or strongly disagree and opine that development of infrastructure alone will not provide for development of the rural economy there should be proper initiatives taken up by the government to provide access to other resources too. With a weighted average mean score of 1.45 it could be concluded that respondents certainly agree that rural infrastructure plays an important role in providing resurgence to rural economic growth.

In this background the respondents were also asked to express their opinion regarding the steps they feel are very important for development of rural economy. And the responses are summarized and presented in **Table 9**.

Table9: Factors considered important for steering rural economic growth

Sl. No	Support initiatives	Number of respondents	Ranking for importance
01.	Providing financial and Interest subsidies	58	5
02.	Providing access to Personal, Agricultural and live stock insurance	50	6
03.	Development of agri based industries and providing necessary training to the rural population regarding such agri based industrial activities	60	4
04.	Access to education	85	1
05.	Providing irrigation, electricity, fertilizers and other facilities required for farming	80	2
06.	Developing and providing access to Infrastructure such as warehouses, logistics etc.	80	2
07.	Developing and providing access to co-operatives to deliver fair price for their efforts	75	3
08.	Development of e-database of all farmers; portal of sustainable agriculture and market intelligence; tracking the practices, crops, productivity and incomes for farmers. And training the farmers regarding their usage and utilities	60	4
09.	Development of District resource unit managed by a specialist district resource agency to provide all the required aid to the farmers and other educated rural population	50	6

Source: Survey

From the table, the following inferences could be drawn

1. Majority of the respondents opine that providing access to education will make the rural population rational in their decisions and be oriented towards the opportunities available in their hands for their betterment and advancement (ranked 1st).
2. The government should also take necessary steps in Developing and providing access to Infrastructure required such as; warehouses, logistics etc. and

provide them with required irrigation facilities, electricity, fertilizers and other facilities for their farming and industrial activities (ranked 2nd).

3. Most of the times the farming communities experience problem in taking their produce to the end customers as they depend more on intermediaries who take away major share of their benefits, hence development and providing access to co-operatives would help them to realize fair price for their crops both commercial as well as non commercial crops (ranked 3rd).

4. Further majority of the respondents also opine that necessary steps are to be taken for development of communication and technological infrastructure that can help them to maintain e-database of all farmers, create e-portals for providing information to the farmers on the sustainable agriculture activities and market intelligence services that can help them to have information on the market prices for their produce and the thereby create a linkage with the markets and the industries looking for procurement of their produce (integration with commodity derivative exchanges like Multi Commodity Exchange (MCX), National Commodity and Derivative Exchange (NCDEX) etc., and to ensure that such facilities are utilized by the farmers they need to impart the required training to the farmers regarding the usage and utilities or e-resources and e-databases for realizing optimal value for their efforts (ranked 4th).

5. A fair number of respondents also feel that necessary institutional credit should be extended by the SPV's such as Regional Rural Banks (RRBs) and State Finance Corporations (SFCs) that can help to avail the required credit facilities for rural industries as well as agricultural activities (ranked 5th) and there is also a need felt among the rural population they need to be provided access to Personal, Agricultural and live stock insurance and steps should be taken for development of District resource unit, which would be managed by a specialist district resource agency to extend all the required aid to the farmers and other educated rural population (ranked 6th). These initiatives are felt very essential by the respondents for attaining the objective of rural empowerment and inclusive growth.

Conclusion

A careful observation of the above analysis reveals that though the government has been striving to formulate such policies to provide for overall growth of all the sectors of the economy, still there has been a failure on the part of the agencies designated with the purpose of delivering such policy initiatives to the real beneficiaries. The government will have to undertake necessary measures to develop the required infrastructure and facilities that can help them to reach the targeted group and educate them regarding their utilities by imparting necessary skill development programmes that can facilitate them to realise the optimal benefits from such initiatives made (also observed by Balachandra, P 2011). In the light of globalization there are a number of opportunities available for sectoral growth, for which the government will have to look for developing the required infrastructure that can attract FDI (Foreign Direct Investments) by promoting investments in agri-based industries which can in turn create potential employment for skilled manpower from these areas (also observed by Grabe, Shelly 2012). Further the following would be the important measures that the policy makers might have to consider on priority for realizing the optimal benefits from the proposed plans for development.

1. Setting up necessary IT infrastructure and development of surveillance measures for proper governance and control over the execution of the proposed plans.

2. Providing necessary training for

THERE ARE A NUMBER OF OPPORTUNITIES AVAILABLE FOR SECTORAL GROWTH, FOR WHICH THE GOVERNMENT WILL HAVE TO LOOK FOR DEVELOPING THE REQUIRED INFRASTRUCTURE THAT CAN ATTRACT FDI (FOREIGN DIRECT INVESTMENTS) BY PROMOTING INVESTMENTS IN AGRI-BASED INDUSTRIES

utilizing the e-resources, which are set for logistical solutions and market intelligence, such as e-choupal (a tool for market information and integration).

3. Extending credit facilities to the needy. And educating the rural and semi urban mass regarding various facilities available to ensure proper utilization of such by the targeted beneficiaries.

4. Setting up district information centres (24X7) which can provide them with all the required information for this section. Though the government has already been set up farmers call centres they need to be made more efficient and the rural and semi urban mass should be primary provided access to such resources.

5. Promote this section people to undertake entrepreneurial activities ensuring them with all the required resources for undertaking such activities. Further, it would also be appreciative for the government to promote public and private partnership in developing the required infrastructure.

For these measures to be accomplished the policy makers should provide for integration of all the sectors of the economy and thereby drive the economy towards growth and prosperity.

The Government must extend credit facilities to the needy and educate the rural and semi urban mass regarding various facilities available to ensure proper utilization of such by the targeted beneficiaries

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ROLE OF MGNREG IN RURAL EMPLOYMENT AND DEVELOPMENT IN MALNAD REGION OF KARNATAKA STATE

The study finds that MGNREGP is generating multiple benefits in creating employment and also acting as a part in the overall development of rural areas this leading to improved water availability and soil fertility

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THE initiation and countrywide implementation of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) represents a milestone in social policy and employment creation with its right based approach and focus on livelihood security. The flagship programme has benefitted millions of marginalized rural households by providing them unskilled work and led to prevention of stress migration from rural areas in lean agricultural seasons. A UNDP/Carnegie Endowment for Peace study points out that from the scheme's first year of operation in 2006-2007 till 2010-2011, job creation accelerated from less than 1 billion workdays distributed amongst 20 million households to 2.5 billion workdays for 50 million households. This article has thrown light on the role of MGNREGA in development of malnad villages and changes in economic conditions of rural folk.

According to World Development Report, 2005 estimated that 79.9% of India's population of 1.1 billion with about 175 million families lives on less than $2 per day. Of these, approximately 76 million families live in adjunct poverty surviving on less than $1 per day (Banker Institute of Rural Development, 2008). Even according to the Eleventh 5 Year Plan (2007–2012) the number of Indians living on less than $1 a day, called Below Poverty Line (BPL), was 300 million that barely declined over the last three decades ranging from 1973 to 2004, although their proportion in the total population decreased from 36 per cent (1993–1994) to 28% (2004–2005). This poverty has become big obstacle for the development of the country.

Whereas majority of the poor's are residing in rural area, the main reason for aggravating poverty is unemployment during non-agricultural season and decline in the agricultural productivity. So this is a challenging task for GOI, in order to overcome from this problem they have under taken many programmes such as 'Sampoorna Grameen Rozgar Yojana' (SGRY) or Universal Rural Employment Programme and National Food For Work Programme (NFFWP) etc,.but unfortunately these programme were not able to reach expected targeted people. This made them to introduce new programme i.e, MGNREGP (Mahatma Gandhi National Rural Employment Guarantee Act) it's a combination of both SGRY and NFFWP and it's also provided short-term unskilled employment to poor, assured food and job security and created durable assets. In contrast to the earlier wage employment programmes.

Evolving the design of the wage employment programs to more effectively fight poverty, the Central Government formulated the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2005. With its legal framework and rights-based approach, MGNREGA provides employment to those who demand it and is a paradigm shift from earlier programs. Notified on 7th September, 2005, MGNREGA aims at enhancing livelihood security by providing at least 100 days of guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work. The Act covered 200 districts in its first phase, implemented on February 2, 2006, and was extended to 130 additional districts in 2007- 2008. All the remaining rural areas have been notified with effect from 1st April, 2008.

Table1: Timeline of Mahatma Gandhi National Rural Employment Guarantee Act

25th August, 2005	NREGA enacted by legalization
5th September, 200	Assent of the President
7th September, 2005	Notified in the Gazette of India
2nd February, 2006	Came into force in 200 districts
1st April, 2007	113 more districts were notified
15th May, 2007	17 more districts were notified
1st April, 2008	Notified in the remaining rural districts
2nd October, 2009	Renamed as MGNREGA

Source: Compiled from various reports of MGNREGA

Objectives of the Mahatma Gandhi National Rural Employment Guarantee programme

The following are the major objectives of Mahatma Gandhi National Rural Employment Guarantee programme. They are as follows:

1. To provide employment opportunities for the most vulnerable people living in rural India.
2. To provide livelihood security for the poor through creation of durable assets, soil conservation and higher land productivity, improved water security etc,
3. To empowerment of the marginalized communities particularly women belong to Scheduled Castes (SCs) and Scheduled Tribes (STs).
4. To establish drought-proofing and flood management in rural India,
5. To strengthening decentralized, participatory planning through convergence of various anti-poverty and livelihoods initiatives.
6. To strengthening the Panchayati Raj Institutions (PRIs).
7. To maintain greater transparency and accountability in governance.

This above objectives justifies that of MGNREGA is helping rural mass to get employment opportunity and acting as a powerful instrument for inclusive growth in rural India through its impact on social protection, livelihood security and democratic governance.

Salient features of the MGNREG Act

The important features of the MGNREG Act are as under:

1. Right based Framework: For adult members of a rural household willing to do unskilled manual work.
2. Time bound Guarantee: 15 days for provision of employment, else unemployment allowance Up-to 100 days in a financial year per household, depending on the actual demand.
3. Labour Intensive Works: 60:40 wage and material ratio for permissible works; no contractors/machinery.
4. Decentralized Planning:
5. Gram Sabhas to recommend works
6. At least 50% of works by Gram Panchayat for execution
7. Principal role of PRIs in planning, monitoring and implementation
8. Work site facilities: Crèche, drinking water, first aid and shade provided at worksites.
9. Women empowerment: At least one-third of beneficiaries should be women.
10. Transparency & Accountability: Proactive disclosure through Social Audits, Grievance Redressal Mechanism.
11. Implementation: Under Sec 3, States are responsible for providing work in accordance with the scheme. Under Sec 4, every state government is required to make a scheme for providing not less than 100 days of guaranteed employment in a financial year, to those who demand work.

Nature of work under MGNREGA programme

MGNREGA works must always belong to the list of 'Permissible Works'. They are, water conservation and water harvesting, drought proofing (including afforestation and tree plantation), Irrigation canal including micro and minor irrigation works, Provision of irrigation facility, plantation, horticulture, land development to land owned by household belonging to certain group (SC/ST, or to the land of beneficiaries of land reforms, or to land of the beneficiaries IAY/BPL families), renovation of traditional water bodies including de-silting of tanks, land development, flood control and protection works including drainage in water logged areas, rural Connectivity to provide all weather access, any other work which may be notified by the central Government in consultation with the state Government, construction of Bharat Nirman Rajiv Gandhi Sewa Kendra and "Gram Panchayat Bhawan". These works are assigned to the rural people (have job cards) during off season. So this programme will help to get employment and full fill the basic needs.

Funding pattern of MGNREG Act

The following is the funding pattern of Mahatma Gandhi National Rural Employment Guarantee programme:

1. The Central Government bears the entire cost of wages of unskilled manual workers.
2. 75% of the cost of material, wages of skilled and semi-skilled workers. Administrative expenses as may be determined by the Central Government, which will include, inter alia, the salary and the allowances of the programme officer and his supporting staff and work site facilities.
3. The state Government bears the costs on the following items:

a. 25% of the cost of material, wages of skilled and semi-skilled workers (as a ratio of 60:40 is to be maintained for wages of the unskilled manual workers and the material, skilled/semi-skilled Government has to bear only 25% of the 40% component, which means a contribution of 10 % of the expenditure.

b. Unemployment allowance payable in case the State Government cannot provide wage employment on time.

c. State Employment Guarantee Councils administrative expenses.

MGNREGA has provided around ₹ 1,10,700 crore (66% of the total expenditure of around ₹ 1,66,000 crore) as worker wages from FY 2006 up to FY 2011–12. Studies note a positive impact of this transfer on household income, monthly per capita expenditure, food security and health of the beneficiaries. Overall, while there are several indications of the significant impact of the scheme, it has even greater potential in terms of poverty alleviation at scale, that can be realized. In FY 2011–12 alone, ₹ 24,600 crore of the total expenditure under MGNREGA was made on worker wages and assessed the impact of the Scheme on poverty and deprivation.

Literature review

The summary of the important literature reviewed are mentioned as under: **Dr. Dhenadhayalan**.V (2010), in his article entitled "National Rural Employment Guarantee Scheme on Rural Development – A path to rural prosperity" has analyzed the success and failure of various schemes introduced by GOI to provide partial employment to the rural poor and to support them economically. After the failure of these schemes the GOI experimented new scheme that is NREGP to fight against the rural poverty. This has implemented its objectives through the involvement of panchayat, civil society and local administration. Here poor families were targeted to give benefits of employments and livelihood to supplement their family income.

Anandharaja. R, et al. (2010), in their article entitled "Rural Road Development in India through NREGA" depicted that a well- developed infrastructure is a prerequisite for capital formation and for the economic development. Rural economic development is influenced by road connectivity in many ways; poverty reduction enhances productivity, improve quality of life and increase the opportunities for poor. For this government has taken various programs for road development like "Pradan Mantri Gram Sadak Yojana", "Bharat Nirman" etc, and another important scheme is "NREGP". These are provides connectivity at all unconnected habitations in rural areas. This leads to boost the development of physical infrastructure of rural India.

Sankari.V and Dr. Sivamurugan. C (2009), in their article entitled "Economic impact of NREGP on employment generation", have analyzed that, in India unemployment is the main reason for the existence of poverty in rural areas. For that the government has launched various employment generation programs, mere providing such employment programs in it does not improve their economic condition. But with the launching of the NREGP it has improved the economic condition of the poor people by giving employment opportunities to the rural poor in the country, with a special social safety needs, helping in reduction of poverty and improves the rural infrastructure in many ways.

Venkata Naidu. G, et al. (2010), in their article entitled "Impact of MGNREGA on the living condition of rural poor" pointed-out that, NREGA came in to effect to enhance the livelihood security of people in rural areas by generating wage employment. This has reduced the migration of farmers and laborers by increasing their income level, education, helped them to settle in their life and also helping in balancing regional development of the country.

Angel Anila. A (2010), in his article entitled "Persistence of Poverty in India – A critical Assessment of National Rural Employment Guarantee Act" stressed upon to remove the poverty the GOI introduced various programs, but unfortunately they failed to implement the programs properly. Even in case of MGNREG programme also GOI failed because of the lack of adequate administrative and technical manpower at the Block and GP (Gram Panchayat) levels. This lack of manpower adversely affected the preparation of plans, inspection, approval, monitoring and measurement of works and maintenance of the stipulated records at the block and Gram Panchayath levels.

Prem Chand Kamboj et al. (2010), in their paper entitled "NREG Scheme on agriculture sector, a case study of Hariana" noted that, NREGP not only provides employment opportunities during lean agricultural seasons but also create rural infrastructure because this programme mainly focus is on the works like water conservation and water harvesting, draught proofing, including afforestation and tree plantation improvement of irrigation canals, including micro and minor irrigation works related to rural connectivity, this construction of water channel and land leveling has improved the productivity of land. In this way NREGS proved to be a virtue for the agriculture sector.

All the above studies pointed the different issues about the rural employments schemes, but this present study has focused on Mahatma Gandhi National Rural Employment Guarantee Scheme's role in rural employment and development with special reference to some selected village panchayats in Malnad region of Karnataka State.

Objectives of the study

The primary objective of the present study is to assess the role of Mahatma Gandhi National Rural Employment Guarantee Programme in rural employment and rural development. Based on this primary objective, other specific and detailed objectives are drawn as under:

- To study the objectives, salient features and funding pattern of MGNREGP
- To examine about the role of MGNREGP in rural employment and rural development.
- To analyze the dynamics impelling on the rural employment and overall progress of rural area through MGNREG programme.
- To give some suggestions for the effective implementation of MGNREG Programme for rural employment.

Table5.1: Demographic profile of respondents – Age and Gender wise

Age group (in years)	Gender			Percentage (%)
	Male	Female	Total	
Below 18 18 - 30	- 05	- 02	- 07	- 5.6
30 - 45	25	14	39	31.2
45 and above	43	36	79	63.2
Total	**73**	**52**	**125**	**100**

(Source: Primary data)

Research methodology

Type of research

This study is an empirical in nature, conducted to know the role of MNREG Programme in rural employment and development.

Scope of the study

This study is mainly concentrated about beneficiary's perception towards MGNREGP and has been restricted to Heggodu and Arga Gram Panchayats, Thirthahalli taluk, Shivamogga District, Karnataka state.

Research tool

This study is conducted through random sampling method.

Sample size

Sample size is 125 respondents. Respondents are scattered over 26 villages, so interview is conducted only for the selected respondents of the study area.

Hypothesis

H1: Employments under MGNREG programme has influenced on the overall development of rural area.

H0: Employments under MGNREG programme has not influenced on the overall development of rural area.

Hypothesis Test

The study has been tested by hypothesis and the research used Chi-square test to test the hypothesis.

Sources of data

The present study is conducted both from primary and secondary sources.

$$X^2 = \sum_{i=1}^{n} \frac{(O_i - E_i)^2}{E_i},$$

The primary data is gathered directly from concerned authorities and beneficiaries through structured interview and questionnaire.

The secondary data is collected from published sources such as various articles, NREGP report, books, journals, periodicals and interest.

Analysis and interpretation

Discussion and conclusion

The above **Table5.1** indicates that, out of 125 respondents, 58.4% are male and 41.6% of them are female, where as 5.6% belongs to the age group of 18 to 30, 31.2% belongs to the age group of 30 to 45 and majority of them belongs to 45 and above age group i.e. 63.2%. This shows that 45 years and above have taken it seriously and taking the maximum benefit.

Table5.2 indicates that, the study covered 2 kirana store owners, 30 agriculturist, 93 daily labours and 68.8% of them have annual income below ₹25,000, 21.6% respondents annual in-

Table5.2: Demographic profile of respondents – Income and Occupation wise						
Annual Income	Occupation				Total	Percentage (%)
	Business	Agriculture	Labour	Others		
Below ₹25,000	--	19	67	-	86	68.8
₹25,000 - ₹50,000	02	09	16	-	27	21.6
₹50,000 - ₹1,00,000	--	01	07	-	08	6.4
₹1,00,000 & above	--	01	03	-	04	3.2
Total	02	30	93	-	125	100
(Source: Primary data)						

Table5.3: Number of members registered under MGNREGP from a family		
Beneficiaries	No. of the Respondents	Percentage (%)
Only one	26	20.8
Only two	63	50.4
Only three	35	28
Four and above	1	0.8
Total	125	100
(Source: Primary data)		
Note: surveyed one respondent from a family		

Table No: 5.4: Benefit of the MGNREGP		
Type of benefit	No. of the Respondents	Percentage (%)
Employment opportunity	50	40
Infrastructure development	8	6.4
Afforestation	7	5.6
All the above	60	48
Total	125	100
(Source: Primary data)		

Table No: 5.5: Role of MGNREGP in rural employment		
Role in Rural development	No. of the Respondents	Percentage (%)
Major role	87	69.6
Minor role	31	24.8
No role	7	5.6
Total	125	100
(Source: Primary data)		

come is between ₹25,000 to ₹50,000 and 6.4% fall between ₹50,000 to ₹1,00,000 and only 3.2% earn above ₹1,00,000. It shows that majority of the respondents who employed under this programme belonged to daily labours and their annual income is under Below Poverty Line and on the other hand small agriculturist are getting an opportunity to earn extra revenue during the off season.

Table5.3 indicates that the number of members in a family registered under MGNREGP. Over 80% respondents registered 2 or more members from a family rural employment programs. Therefore, it can be depicted that most members of a family of village labour class and small agriculturalist enjoying the benefit of the scheme.

Table5.4 presents the facts of benefit of MGNREG Programme to villagers and the village. This scheme has seen the sound success in providing rural employment which is used for development of infrastructure, afforestation, deshilting of ponds in villages. Hence, this scheme is achieving two task together.

Table5.5 indicating the opinion of respondents towards the role of MGNREGP towards rural employment. Majority (69.6%) of the respondents' opinion that, this programme is major role in providing the employment opportunities but around 30.4% argue that it is not giving sufficient employment through the year and it is just working as filler.

H1: Employments under MGNREG programme influencing on the overall development of rural area.

Table5.6 value for 1% level of significance is 36.19. The table value for 5% level of significance is 31.41. The computed value is 57.33. Since, the computed value is more than both the table values. So alternative hypothesis is accepted and its result indicates that, there is a relationship between the rural employment and overall development of a village through MGNREGP. This

Table5.6: Role of MGNREG programme in overall rural development						
Particulars	Strongly Agree	Agree	Natural	Disagree	Strongly Disagree	Total
Political development	14	16	-	-	-	30
Social development	8	4	4	2	2	20
Cultural development	-	3	-	5	2	10
Economic development	24	20	7	-	-	51
Empowerment	-	6	3	-	-	9
Participation	-	2	2	1	-	5
Total	46	51	16	8	4	125
(Source: Primary data)						

Table value @ 1% level of significance	Table value @ 5% level of significance	Computed value	Degree of freedom
36.19	31.41	57.44	20

Table5.7: Problems in MGNREG Programme.		
Problems	No. of the Respondents	Percentage (%)
Corruption	49	39.2
Late Payment	35	28.0
Irregular work	69	55.2
Bossism	11	08.8
Exploitation	6	04.8
Political intervention	51	40.8
Poor quality work	48	38.4
Total respondents	125	100
(*Source: Primary data*) Note: Respondents answered more than on options		

shows that, MGNREG Programme has influenced on the overall development in the study area.

The above table indicates the problems faced by the registered members (respondents) for MGNREG programme. A majority of the respondents are not happy with the irregularity of work provided to them, political intervention and favourism playing the major role in allotment of work. Corruption and late payment is one of the major hick-ups in execution of the programme. Though the respondents are part of MGNREG programme, they are not happy with the quality of work done and property created by them.

Findings

The following are the major findings of the study which also includes the observations of Standing Committee on Rural Development.

1. A majority of the members who registered for selling the manual labour are uneducated or under-educated but very few have passed matriculation.
2. 91% of the registered members live under the Below Poverty Line and of around 50% of the families registered, at least two members work under this programme.
3. 40% of the respondents opined that the MGNREG programme provided employment to the rural poor and for others working as a filler during off-season.
4. 48% of the respondents agree that MGNREG programme facilitating in development of infrastructure, afforestation etc. in the rural area.
5. Around 94% of respondents are totally happy with the way MGNREG programme is performing.
6. Majority of the respondents are not happy with the irregularity of work provided to them, political intervention and favourism by the executors at gross root level.
7. Corruption and late payment is one of the major hick-ups in execution of the programme.
8. Respondents are not-satisfied with disbursement of wages which has to be disbursed within 15 days as mandated by MGNREGA but not done.
9. Thought the political interference is much in execution of the programme, still MGNREG programme is heading towards development of political, socio-cultural and economic status of the rural folk.

Standing Committee on Rural Development's observation on MGNREG Programme

1. There has been a delay in the completion of works under MGNREGA and inspection of projects has been irregular.
2. While as many as ₹12.5 crore households have been issued job cards out of an estimated ₹13.8 crore rural households (as per the 2001 census), there are several issues related to existence of fake job cards, inclusion of fictitious names, missing entries and delays in making entries in job cards.
3. There has been a delay in the completion of works under MGNREGA and inspection of projects has been irregular. Implementing agencies were able to complete only ₹98 lakh works

out of ₹296 lakh works.

4. Many of them noticed that there is a poor quality of assets created, several instances of corruption in the implementation of MGNREGA, and insufficient involvement of PRIs.

5. The Committee found that a large amount of funds allocated for MGNREGA have remained unutilized. For example, in 2010-11, 27.31% of the funds remained unutilized. The Committee recommends that the Department of Rural Development should analyze reasons for poor utilization of funds and take steps to improve the same. In addition, it should initiate action against officers found guilty of misappropriating funds under MGNREGA.

40%

OF THE RESPONDENTS OPINED THAT THE MGNREG PROGRAMME PROVIDED EMPLOYMENT TO THE RURAL POOR AND FOR OTHERS WORKING AS A FILLER DURING OFF-SEASON

Suggestions

The following are suggestion for better execution of MGNREG Programme given based on the study.

1. Participation of women in MGNREG programme must be increased through raising awareness as her role in the programme play a vital factor in family's income.

2. The MGNREG Programme is not much popular in the rural area due to lack of awareness. So a special awareness campaign should be conducted for the beneficiaries.

3. Under the MGNREGP programme, large number of workers have suffered from the interference of middlemen. Gram panchayat officers have not given any proper guidance about the programme and they have not supervised the workers at the work site. The workers' usual contact was only with the gram panchayat development officer, and if he committed fraudulent activities no one questioned them. In order to reduce this, specialized supervisory board is necessary.

4. Offences such as not recording employment related information in job cards and unlawful possession of job cards with elected PRI representatives and MGNREGA functionaries should be made punishable under the Act.

5. In addition to rural employment this programme should also need to give importance for education of rural poor because majority of them working under this programme are uneducated.

6. This programme need to be renewed. Because in some of the states the regulatory body is not working properly in successful implication of MGNREG Programme.

7. Since states are at various stages of socio-economic development, they have varied requirements for development. Therefore, state governments should be allowed to undertake works that are pertinent to their context. There should be more emphasis on skilled and semi-skilled work under MGNREGA. In addition, the Committee recommends a greater emphasis on convergence with other schemes such as the National Rural Livelihoods Mission, National Rural Health Mission, etc.

8. Dated receipts for demanded work should be issued so that workers can claim unemployment allowance. Funds for unemployment allowance should be met by the central government.

9. National Level Monitors (NLMs) are deployed by the Ministry of Rural Development for regular and special monitoring of MGNREGA and to enquire into complaints regarding mis-utilisation of funds, etc. The Committee recommends that the frequency of monitoring by NLMs should increase and appropriate measures should be taken by states based on their recommendations. Additionally, social audits must mandatorily be held every six months. The Committee observes that the performance of MGNREGA is better in states with effective social audit mechanisms.

10. Training and capacity building

of elected representatives and other functionaries of PRIs must be done regularly as it will facilitate their involvement in the implementation of MGNREGA.

Conclusion

MGNREGP is one of the largest rural development programme implemented in India. The present study aimed at quantifying and generating empirical evidence on the potential of MGNREGS in creating rural employment and rural development. The empirical evidence from the study area representing that, that MGNREGP is generating multiple benefits in creating employment and also acting as a part in overall development of rural area this leading to improved water availability and soil fertility resulting in increased crop production, afforestation, infrastructure development, socio-economic development, environmental protection etc. This shows that this programme is helping towards the achievement of financial inclusion and inclusive growth in rural area. But still there are number of loopholes are their so if the GOI has taken action for proper implementation of the programme then really the country will get fruitful benefit and helps to overcome from unemployment, reduced migration, reduces poverty etc.

Under the MGNREGP programme, large numbers of workers have suffered from the interference of middlemen. Gram panchayat officers do not have any proper guidance about the programme and they do not supervise the workers at the work site. The workers' usual contact was only with the gram panchayat development officer, and if he committed fraudulent activities no one questioned them

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SOCIAL AUDIT AS A TOOL FOR EFFECTIVE GOVERNANCE AND DEPLOYMENT OF FUNDS BY PRIs: A BENEFICIARY'S PERSPECTIVE ANALYSIS

In a democratic system public funds ultimately belong to the people. Therefore the government must be held accountable for the manner in which it spends their money



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Social Audit at the grassroot level has become a cutting edge of introducing transparency into governing programmes by handing over the right to review the government programmes to the Gram Sabha. Initially Social Audit was a mandatory component in MGNREGA but now it will be extended to all the programmes implemented by the Gram Panchayat. ocial audit is the process of cross verification of government records with the ground realities. The unique thing about social audit is that it is conducted by the very people who are affected by the implementation of any particular project, law of policy. Thus, social audit creates a platform for poorest and most disempowered to participate in governance.

Social audits can be very effective in enhancing the culture of transparency, especially in Panchayats. Panchayats are dominated by Sarpanch and Secretary who are not interested in promoting transparency. The villagers are hardly aware about the funds that are received by the Panchayat and the expenditure incurred. In this respect social audits enable Gram Sabha members to demand financial accounts as well as review performance of Panchayats for promotion of economic development and social justice.

Literature review

Assessment of Present status and reccomendation of methods for making social audit, a vaible instrument for sustainalbe programme delivery published by Planning commision as Final report on social audit in Gram sabha and panchayat raj institutions, this rport confirms that Health of PRI Institutions/Gram Panchayatand Gram Sabha, being far below the desired level. The state of PRIs is influenced by the vested interest groups, resisting empowerment of PRIs and inadequate Audit and Control Systems unable to empower the PRIs and Gram Sabha. The specific areas of gap and degree of gap are presented in the report.

Strengthening Panchayati Raj System in Odisha :Initiatives and Concern by Dr.Priyanath Pattayat, published on issues related to disseminate knowledge and awareness of the needs of the people, legal rights, and availability and accessibility of social and economic resources. In order to create an awareness this has facilitated Social Audit Agency named 'Odisha State Social Audit, Accountability & Transparency (OSSAAT) under the aegis of Panchayati Raj Department to ensure impartial and effective Social Audit of the social sector development programmes for greater transparency and accountability.

Gram Sabha and Panchyati Raj by Nirmala Buch, published on transparency in PRI transactions formal audit through procedures recommended by the Comptroller and Auditor General and the Institute of Public Accountants and most importantly, social audit through the Gram Sabhas participation form beneficiaries of Gram panchayat programmes.

RESEARCH FINDINGS 1		
Profile of Respondents		
Gender		
	No. of Respondents	Percentage (%)
Male	81	40.62
Female	119	59.37
Total	200	100%
Marital status		
Married	75	37.5
Unmarried	125	62.5
Total	200	100
Education		
Illiterate	50	25
Schooling	75	37.5
Graduation	62	31.25
Post-graduation	13	6.25
Total	200	100%
Occupation		
Agricultural labour	-	-
Industrial labour	50	25
Self-employment	125	62.5
House wife	25	12.5
Other	-	-
Total	200	100%
Monthly Income		
Upto Rs.3,000	112	56
Rs.3,001 to 5,000	44	22
Rs.5001 to 7000	12	6
Rs.7001 to 10000	7	3.5
Rs. 10,000 & above	25	12.5
Total	200	100%
(Source: Survey data)		

Objectives

1. To Assess the awareness among the Beneficiaries of Gram panchayat functions.
2. To Analyze the level of effectiveness in Financial and Non-financial functioning Gram panchayat with respect to Social audit.

Hypothesis

Social Audit has potentials for making a meaningful impact on the effectiveness of the Panchayat raj institutions.

Research methodology

Scope of the study

The study explores the level of involvement of Beneficiaries in social audit of panchayat raj institutions and Response of local Beneficiaries in functioning social audit of Gram panchayat, participation on the implementations of Panchayats planes on villages in respective region. The data obtained by 10 Gram panchayats in Shivamogga District, Karnataka.

Research Design

Since there have been many Indian exploratory studies on Relevance of Social audit in panchayat raj institutions reported by Planning commission and functions of Gram panchayat after generations of its proposal, the research is pursued on exploratory research design.

Sample design

Since detail study of opinions of all the beneficiaries towards Relevance of information is very difficult and time consuming, therefore, the study adopted convenience random sampling method and selected 200 respondents in 10 Gram panchayats operating under Shivamogga ZP

Sources of data

The study is based on both pri-

RESEARCH FINDINGS 2 Awareness level of Beneficiaries on functions of Gram panchayat			
Sl. No	**Statements**	**No. of Respondens**	**Percentage (%)**
1.	Are you involved in Panchayat activities?	150	75
2.	More powers to be given for Panchayat leaders and Members	50	25
3.	More funds to be allotted to Panchayat	150	75
4.	More awareness to be created among the public about Panchayat role	175	87.5
5.	Managerial capacity of the leaders and members to be enhanced	75	37.5
6.	Securities to be enhanced	75	37.5
7.	Is your Panchayat working effectively	77	38.5
8.	Is training is needed for members	85	42.5
9.	Has your Panchayat done any evaluation of any programme and their impact on common people's quality of life?	90	45
10.	Do you think the present functioning of Panchayat can be improved?	175	87.5
11.	Do you know about the bottom level planning	50	25
12.	Do you think the benefits of bottom level planning at the grassroots level?	75	37.5
13.	Are you aware about any committee at Block to provide benefits to you and your community:	50	25

(Source: Primary data)

RESEARCH FINDINGS 3 Beneficiaries normally receives Information from Panchayat			
SL. No.	**Particulars**	**No. of Respondents**	**Percentage (%)**
1	Details about the scheme	75	37
2	Where to approach (Place)	50	25
3	Benefits of the scheme	50	25
4	Information regarding Procedures	75	37
5	Implementing agency for scheme	25	12.5
6	Whom to approach (Department)	25	12.5

(Source: Survey data)

RESEARCH FINDINGS 4 Schemes being implemented by the Government in Block /village			
Sl. No	**Schemes**	**No. of Respondents**	**Percentage**
1	National Rural Employment Guarantee Act (NREGA)	70	35
2	Swarnajayanti Gram SwarojgarYojana(SGSY)	20	10
3	Indira AwasYojana(IAY)	25	12.5
4	NSAP- National Social Assistance Programme(NSAP)	20	10
5	Rashtriya Sum VikasYojana- now stopped/merged with BRGF in most states.(RSVY)	30	15
6	Backward Region Grant Fund(BRGF)	35	17.5
	Total	200	100

(Source: Primary data)

mary and secondary data. Primary data was collected from the 10 GPs under Shimoga ZP administering questionnaire to 200 Sample units. The secondary data was collected through sources like, Published articles, reports, papers, books, etc.

Tools and techniques
The study uses tools like tabular method, five points scale is applied to interpret the data systematically and Chi-square test used to test Hypothesis to draw the meaningful conclusions.

Testing of hypothisis

H0: The Satisfactory level on fund allocation and utilization of Beneficiaries is independent of Panchayat raj institutions financial activities.

H1: The Satisfactory level on fund allocation and utilization of Beneficiaries is not independent of Panchayat raj institutions financial activities (see **Table1** & **Table2**).

By the hypothesis testing it can be infer that, major section of the respondents lies in the Satisfaction level of beneficiaries on Panchayat raj institutions fund allocation and utilization, the calculated value is 65.5 and table value for 5% significance level is 31.41 by this data it infer that the calculated value is more than the table value by this the null hypnosis is rejected. The result indicates that Gram panchayats are fail to satisfy the Beneficiaries in allocating

Table1: Satisfaction level of Beneficiaries relating to allocation and utilization of Gram panchayat funds (Financial activities)						
Sl. No.	Particulars	Highly satisfied	Satisfied	Neither Satisfied Nor Dissatisfied	Dissatisfied	Highly Dissatisfied
1.	Role and Power of members to channelize funds	20	35	15	-	-
2.	Funds under Women development/empowerment scheme	10	-	20	-	-
3.	Fund allotted towards village infrastructures enhancement/development	-	05	05	-	-
4.	Utilization of the fund for completion of the intended/ proposed project	15	20	15	05	-
5.	The quantum of fund allocated for the Panchayats development plans	-	10	-	-	-
6.	Maintenance of Accounting records	05	05	15	-	-
(Source: Primary data) N = 200						

Table2: Chi-Square Test			
Value	**Df**	**Critical value**	
Pearson Chi-Square	65.5	20	31.41
Total respondents	200		

Table3: Performance of Gram Panchayats in terms of their Functions							
Sl No.	**Particulars**	**Excellent**	**Good**	**Average**	**Bad**	**Poor**	**Total**
1	Implementation of Programmes	10	13	10	5	2	40
2	Dissemination of Information	10	05	06	05	04	30
3	Quality of Work done	15	20	05	--	--	40
4	Support from Block	10	10	24	05	06	55
5	Power and duties of Panchayat	--	03	01	02	01	07
6	Involvement of Gram panchayat in selection of beneficiaries for different scheme	10	13	05	--	03	31
	Total	55	64	51	17	13	200
(Source: Survey data)							

Table4: Chi-Square Test			
Value		**Df**	**Critical value**
Pearson Chi-Square	48.26	20	31.41
Total respondents	200		
(Source: Primary data)			

and utilizing funds in development of rural area.

HO: The opinion on performance of Beneficiaries on Panchayat raj institutions is independent of Non-Financial activities.

H2:The opinion on performance of Beneficiaries on Panchayat raj institutions is independent of Non-Financial activities (see Table3 & Table4).

By the hypothesis testing it can be infer that, major section of the respondents lies in the Satisfaction level of beneficiaries on Panchayat raj institutions fund allocation and utilization , the calculated value is 48.26 and table value for 5% significance level is 31.41 by this data it infer that the calculated value is more than the table value by this the null hypnosis is rejected. The result indicates that Gram panchayats are not performing effectively in non-financial activities in implementation and dissemination of rural development plans.

Interpretation of major findings

1. Table: 6.1 Evident that Majority of respondents are female as they are well aware about the rural development schemes.
2. 62.5% of respondents belong to unmarried segment; this indicates they are more inclined towards the developmental plans of Gram panchayats it represented in **Research Findings 1**.
3. Research Findings 1 reveals Illiterate score 37.5% under qualification pattern of the beneficiaries; it shows they are more interested in utilizing Gram panchayats schemes.
4. 62.5% of share under occupation of the beneficiaries is dominated by the Entrepreneur as they consider GP Schemes are major source of fund for their business it has showed in Research Findings 1.
5. Research Findings 1 represents Bottom of the period scores the highest 56% in the beneficiary group as they take maximum advantage of GP

Schemes.

6. 75% of respondents express that they are frequently involved in panchayat activities, because they are more concerned and keep following up of Gram panchayat activities regularly represented in **Research Findings 3.**

7. Research Findings 3 showed Greater parts of the beneficiaries are not satisfied about the allotment of funds in their panchayat , because PRIs capable assessing the needs of the targeted group.

8. Most of the beneficiaries expect role of panchayat should be brought to the limelight, because there is no proper training imparted to PRIs officials and members to promote their roles to beneficiaries group revealed in Table 6.3

9. Research Findings 3 indicates Beneficiaries project a mixed response on effective working of the panchayats, as financial and non-financial activities does not perform to their level of expectation.

10. Only 45% of their beneficiaries express evaluations of programmes are having an considerable impact on common peoples quality of life represents in Research Findings 3.

11. Research Findings 3 disclose A very meager number of beneficiaries disclose that benefits of the schemes are reaching target group because other part of beneficiaries feel panchayat raj institutions are failing in executing the schemes to the needy.

12. Only 25% of the beneficiaries are aware about the committees in their blocks which are facilitating to their community, because PRIs are taking sufficient effort to create awareness in minds of rural people represented in Research Findings 3.

13. Normally beneficiaries seeks information about the PRIs schemes, where as the data obtained porters very less amount satisfaction in the minds of Beneficiaries like insufficient details about the schemes, approach, procedure and their functions which represented in Research Findings 3

14. MNREGA and BRGF schemes are the most popular with the beneficiaries as per the obtained data, because most of them felt these schemes created satisfactory level of awareness in the minds of beneficiaries represented in **Research Findings 4.**

Conclusion

In a democratic system public funds ultimately belong to the people. Therefore the government must be held accountable for the manner in which it spends their money. The government must spend public funds efficiently i.e., the outcome of the expenditure should clearly show that the money was well spent. Public funds should be spent economically i.e., the government should spend less but show more good results avoiding wastage. Public money should be spent effectively i.e., generating desired outcomes. People's audit helps to narrow down the gaps between vision/goal and reality, It is a technique to understand measure, verify, and report on and to improve the financial and Non-financial performance of the PRIs system.

The challenge is how to streamline the functioning of the PRIs at the grassroot level with adequate Resources. One of the critical issues is access to and control over resources and generates revenues at the Panchayath level to make them financially stable. PRIs need for applying proper criteria in distribution and utilization of funds across the PRIs. GPs are responsible in concurrent monitoring and evaluating of Plans for establishing and refining systems of PRIs schemes. There should be voluntary disclosure of information about the scheme, its deliverables and beneficiaries could able to track the information in right time this would help to achieve better rural India. For ensuring effective and efficient implementation of panchayath functions, GP need to provide training to officials and members to upgrade knowledge and skills. It should have more of field input and should not end with one course; it should be continuous basis. It has to conduct Gram Sabha through social mobilization, individual and collective awareness building, and information dissemination to involve the people in the process.

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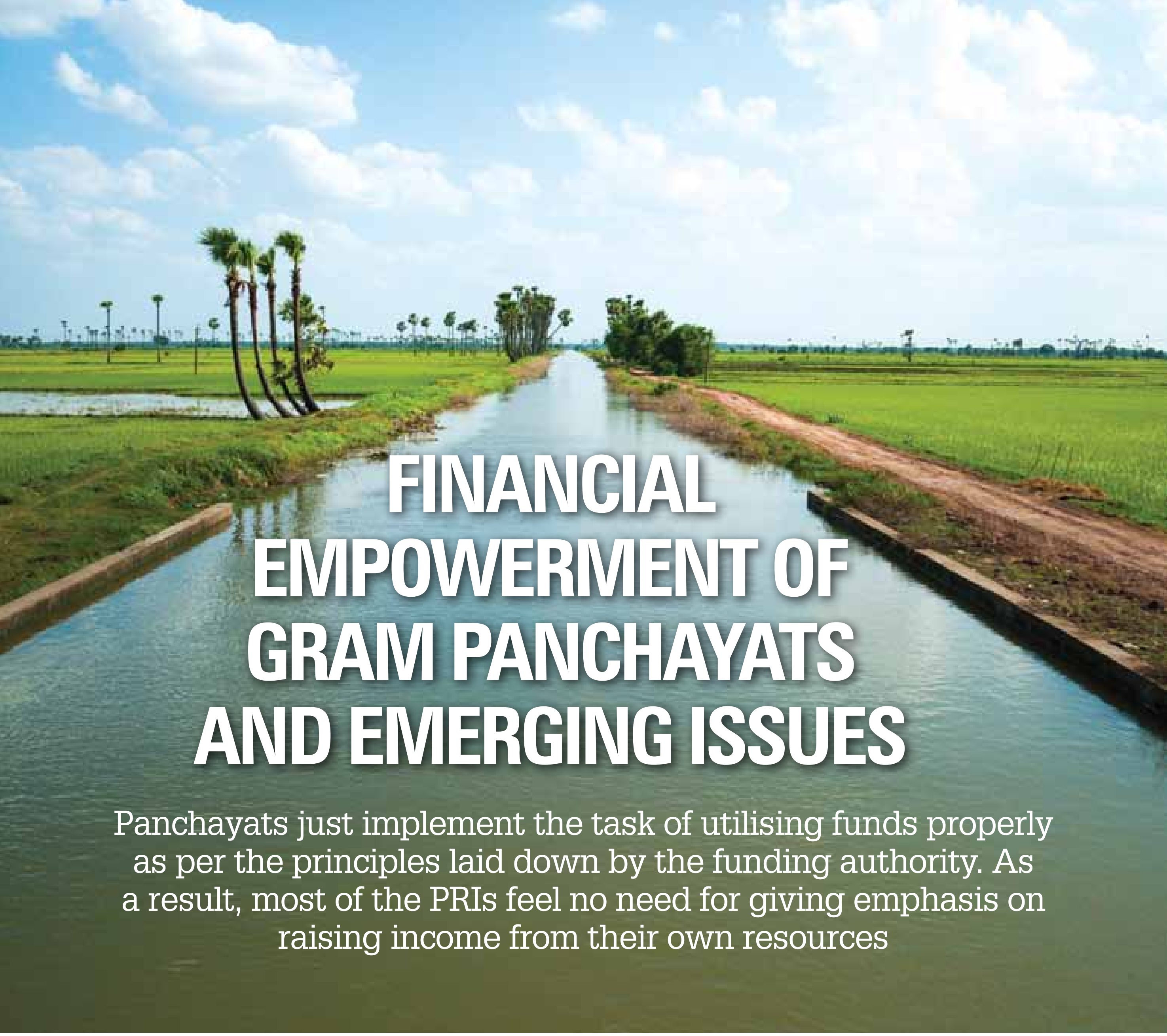

FINANCIAL EMPOWERMENT OF GRAM PANCHAYATS AND EMERGING ISSUES

Panchayats just implement the task of utilising funds properly as per the principles laid down by the funding authority. As a result, most of the PRIs feel no need for giving emphasis on raising income from their own resources

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TO account for its financial probity the Panchayati Raj Institutions (PRIs) in West Bengal prepare Receipts and Payment Account, but no Balance Sheet. Comptroller and Auditor General of India in association with Ministry of Panchayati Raj, Govt. of India, has issued a 'Model Accounting System' for Panchayats in India in 2009, which is essentially based on cash basis system of accounting, not accrual basis. In the recommended 'Model Accounting System' there is no stipulation that a Panchayat should prepare a Balance Sheet, which is extremely essential in assessing financial position of an organization. All these points reflect that when a Gram Panchayat does not prepare its Balance Sheet, assessing financial stability of this institution cannot be in conformity with the sense it exactly conveys.

Relevance that we assign to the phrase 'financial stability' in the industrial organisations to denote the state of affairs of a firm, with same weights the phrase cannot be used in the context of the Panchayati Raj Institutions. In practice, a Panchayat that receives lots of money is doing well, while another one having very weak resource base fails to meet the aspirations of local people. So, to mean financial position of PRIs we actually refer to the size of income and resource base that these institutions have, but it does not mean how they strike the balance between its assets and liabilities.

Objectives of the study

The objectives of the study are:

i) To review the sources of finance of the Gram Panchayats in West Bengal

ii) To review the steps taken by central and state government for financial empowerment of the Gram Panchayats

iii) To assess Gram Panchayats' own effort in mobilizing income from own sources

iv) To examine the role the Panchayats play in executing developmental programmes in villages.

v) To recommend accounting measures so that financial stability of Gram Panchayats can be practically assessed.

Methodology

The study is based on a case study of six Gram Panchayats located within the jurisdiction Phansi Dewa Panchayat Samiti in Darjeeling district. The focus of the study is on empirical investigation of the financial position of the Panchayats and developing a link with its theoretical and accounting aspects. Extensive literature review has been made to trace the gradual developments taking in this area and provide validity to the observations.

Literature review

Concern for financial empowerment of the Gram Panchayats started immediately after independence. The Article 40 of the Constitution of India enshrined upon the States to take steps to organise Village Panchayats and endow them such necessary power as may enable them to function as units of self-government. According to Santham Committee Report (1963), financial resources have to be adequate for the functions allotted to the Panchayati Raj Institutions. Because of weak local resource base, these institutions in India were unable to function properly in the early sixties of last century. In a study made long back by Bandypadhyay N (1983), income of Gram Panchayat in Jalpaiguri district for the period 1975-79 was found to be Rs 3500 only. It means that annual income of a GP was close to Rs 1000 only. Mehta Ashok (1978) in his report on PRIs reported that average income of Gram Panchayats in West Bengal was only Rs 1230, which was too small to meet the requirements and duties assigned to them. Per capita income of Gram Panchayats at that time stood at 74 paise only. Since then there began an academic and social consensus that started emphasising on financial empowerment of the Gram Panchayats.

During the late eighties financial position of Gram Panchayats began to increase considerably. During that decade finances of Gram Panchayats increased many fold. Average income of a Gram panchayats increased to an approximate amount of Rs 1,00,000 in 1984-85. Again it increased to Rs 6,00,000 (six lakh) in 1989-90. One copy of Income Statement of a Gram Panchayat is given below for quick reference

Income of Araidanga Gram Panchayat in the district of Malda, West Bengal for the financial year 1989-90

Sources	Amount (Rs.)
a] Govt. Grants for Salaries	Rs. 84,700
b] Govt Grants for honorarium of Pradhan	Rs. 12,900
c] Govt. Grants for development works	Rs. 511,304
d] Income from Own Sources	Rs. 13,237
Total	Rs. 6,22,141

Source: Roy Dipen (2005): Finances and Accounting of Gram PRIs in west Bengal, Abhijit Publications, Delhi

Vithal C P (1997) made a study of Panchayat Acts of twenty states including some Union Territories. He pointed to the problem of finance of PRIs and drew attention to the lack of adequate resources of the Gram Panchayats necessary for implementing obligatory functions like provision of drinking water, maintenance of roads, sanitation etc. According to him the Panchayats have been given wide-ranging powers of taxation, but they do not take adequate steps for mobilizing income from their own resources efficiently.

Mandal Chanchal (2003) in another study done in Cooch Behar District in West Bengal presented a notable evidence that per capita tax mobilization by Sikarpur Gram Panchayat in the district was close to 54 paise over a period from 1994-95 to 1997-98. However, in 1999-00 this figure of tax mobilization registered a sizeable increase. Though per capita income of Gram Panchayats at that time increased to Rs 7.53, but per capita tax mobilization was as low as Rs 1.92 only.

West Bengal State Finance Committee (1995) observed that the average resource mobilisation per Gram Panchayat was about Rs.12000. This was only a small fraction of the grants-in-aid that flow to the institutions. However, a few enterprising Gram Panchayats earned as much as Rs. 1 lakh, mostly from various remunerative ventures, rather than from their tax base.

Most of the research findings reflect that effort taken by the Gram Panchayats in collecting tax revenue was inadequate. Contrary to the above findings Muthayya B.C. (1972) presented an example of 100% tax collection by Gram Panchayats in sample districts in Andhra Pradesh. His study revealed that if workings are transparent and people understand that collected tax revenue will be used in their own development, they develop a positive tax-paying behaviour. Therefore, proper information and correct understanding must go side by side.

Contrary to this, any sort of secrecy creates the atmosphere of suspicion and misunderstanding. As a consequence people begin to keep distance from the functioning of local democratic institutions; this is not consistent with the basic propositions of decentralised governance. An instrument to fight this problem is to make information open, understandable and easily available. However, there should be a system for compilation, preparation and presentation of information. Accounting must remain at the heart of the information system.

In the context of the 73rd Constitutional Amendment and financial empowerment of Gram Panchayats Oommen M A (1995) opines that evolving a normative scheme of financial devolution to PRIs is by any reckoning not easy. However, the practice of discretionary fund transfers must end and the State Finance Commission should take care of this so that developmental programmes are not interrupted.

Over the last two decades vigorous constitutional amendments were made. Lots of steps were taken for financial empowerment of the Gram Panchayats. In this context it seems appropriate to conduct a study on Finances of Panchayati Raj in West Bengal and examine if the financial position of the Gram Panchayats has improved significantly.

73rd Constitutional Amendment in 1992

The 73rd Constitution Amendment 1992 emerged as a big step towards filling the existing gaps and empowerment of Village Panchayats. It outlined some general principles to be followed in every state in organizing Panchayati Raj System. The notable provisions of the amendment are as below:

i) Making of provision for representation of women and weaker section in Panchayat bodies

ii) Inclusion of the Eleventh Schedule to the Constitution listing the functions to be done by PRIs

iii) Compulsory appointment of State Finance Commission for recommendation of finances to be made available to PRIs and taxes to be levied by them,

iv) Holding of regular election to Panchayat bodies and prescribing conduct of election as a duty of the concerned State Election Commission.

The provisions of the 73rd Amendment Act are directed to empowerment of people at the grass-root and ensure that 'not only rural elites' but weaker section of society particularly women, scheduled caste and scheduled tribes are represented on the Panchayat bodies. The aim is to ensure that the fruits of development percolate down to target beneficiaries at the grass-root.

Subsequently lots of steps have been taken from the floor of the parliament for greater financial devolution of finances to the Panchayat bodies. Article 243H stipulates that the Legislature of a State may, by law, shall

(a) authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;

(b) assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;

(c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State; and

(d) provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys therefrom, as may be specified in the law.

Fiscal powers of Gram Panchayats

Provisions of The West Bengal Panchayat Act 1973

The West Bengal Panchayat Act 1973 has prescribed a long list of sources wherefrom the Gram Panchayats have been empowered to raise resources. Some of the relevant sections of the Act 1973 have been given below:

46(1) Gram Panchayat shall impose yearly a tax on lands and buildings located within the local limits of its jurisdiction, at the prescribed percent of the annual value of such lands and buildings

46(2) a Gram Panchayat shall levy an additional stamp duty of 2% the on amount of the consideration transacted at the time of selling a moveable property.

(a) a Gram Panchayat shall levy a duty in the shape of an additional stamp duty at the rate of ten percent on all payments for admission to any entertainment

47(1) Subject to such maximum rates as the State Government may prescribe, a Gram Panchayat may levy the following fees, rates and tolls, namely

i) fees on the registration of vehicles

ii) fees on plaints and petitions and other processes in suits and cases instituted before the Nyaya Panchayat concerned

iii) a fee for providing sanitary arrangements at such places of worship or pilgrimage fairs, markets and melas within its jurisdiction as may be specified by the State Government by notification

iv) a water rate, where arrangement for the supply of water for drinking irrigation or any other purpose is made by the Gram Panchayat within its jurisdiction

v) a lighting rate, where arrangement for lighting of public streets and places is made by the Gram Panchayat within its jurisdiction

vi) a conservancy rate, where arrangement for clearing private latrines, urinals and cesspools is made by the Gram Panchayat within its jurisdiction.

vii) fees on registration for running trade, wholesale or retail within the jurisdiction of the Gram Panchayat unless such registration or such trade is prohibited under any law for the time being in force;

viii) tolls on persons, vehicles or animals or any class of them at any tollbar which established by the Gram Panchayat on any road or bridge vested in or under the management of the Gram Panchayat

ix) fees on license on dogs and birds and other domestic pet animals

x) a general sanitary rate where arrangement for construction and maintenance of public latrines is made by the Gram Panchayat within its jurisdiction.

This is long list, which is not possible to put here in black and white in the article due to space constraint. Though the sources prescribed are many, but except property taxes most of the other sources are either not remunerative or not been rightly harnessed by the Gram Panchayats.

According to Section 47A of the Act a Gram Panchayat may borrow money from the State Government, or from banks, or from other financial institutions for financing specific schemes as may be drawn up by the Gram Panchayat for the purpose of augmenting local development. This alternative is seldom exploited by the Gram Panchayats because a big amount of the money supplied to them in the form of grants in aid remains unspent. Under such situation the need for making loans from financial institutions seems unnecessary. This point has been separately discussed later in this paper.

West Bengal State Finance Commissions 1995

Procedures for allocation of fund to Panchayat bodies

73rd Constitutional Amendment, 1992 made it binding that concerned state governments shall appoint a State Finance Commission to recommend the principles that should govern the distribution and assignment of taxes, duties, toll, etc. between respective states and its PRIs and grants in aid from the State's Consolidated Fund to facilitate improvement of financial position of the PRIs. To pursue this constitutional obligation of the 73rd Amendment 1992, West Bengal State Finance Commission was appointed, which presented its first report in 1995.

The State Finance Commission points to the need that there has to be vertical sharing between tiers and again horizontal sharing between Panchayat Samities and Gram Panchayats. Vertical sharing of District Panchayat Fund between the three tiers should be in the following manner:

Zilla Parishads	30%
All Panchayat Samitis together	20%
All Gram Panchayats together	50%

The rationale for a larger allocation for the Gram Panchayats follows from the fact that these bodies are primarily responsible for satisfaction of local needs and aspirations. The difference in the ratio of allocation between the upper two tiers i.e. ZP and PSs arises from our understanding that the ZPs will have to undertake relatively larger projects and arrange for overall administrative and technical supervision.

Entitlements of Gram Panchayats: Formula of horizontal sharing

For determining entitlement of funds to GPs the following factors are to be considered. These are (a) population, (b) percentage of SC and ST and (c) percentage of illiterates. Of the three factors, population has been given a weight of 50 per cent and SC/ST and non-literacy a weight of 25 per cent each. Share of allocation to a Gram Panchayat 'Gk is expressed as:

$$G_k = 0.5G_{1k} + 0.25\ (G_{2k} + G_{3k})$$

Where

G_{k1} is the percentage of district population living in the GP 'k'

G_{2k} is the percentage of the district illiterates living in the GP 'k'and

G_{3k} is the percentage of SC and ST population of GP 'k' to the total number of SC and ST population of all GPs in the district.

Other recommendations of West Bengal State Finance Commission

West Bengal State Finance Commission stressed the need for periodical assessment and valuation of house property by the Central Valuation Board so that correct amount of property can be determined. The commission recommended making it mandatory and the Central Valuation Board is strengthened adequately for this purpose.

The Commission also recommends that Gram Panchayats may be allowed to accept voluntary contributions from willing persons living within or outside the jurisdiction of the Gram Panchayat for financing the development activities of the Panchayats. The Commission has also suggested introduction of Incentive Schemes to encourage Panchayat to increase their own incomes.

Recommendations of Central Finance Commissions

The 12th Central Finance Commission has given special emphasis on mobilization of revenue and earmarked 20% of the fund for distribution as

Table1: Weights allotted to criteria for grants to local bodies	
Criterion	**Percentage weights**
Population	50
Area	10
Distance from highest per capita sectoral income	10
Index of devolution	15
SC/STs proportion in the population	10
FC local body grants utilisation index	5
Total	**100**
Source: 13th Finance Commission Report, p. 177	

Incentive Grants on revenue mobilization from own sources of the Panchayats. Balance 80% has been earmarked for distribution as per entitlement of the PRIs according to prescribed formula of the State Finance Commission

The 13th Central Finance Commission has given revised criteria for determining financial entitlement of Gram Panchayats as given in **Table 1**.

Observations of the West Bengal State Finance Commission, 1995

According to the commission there is considerable scope for enhancing collection of the tax on Lands and Buildings, but the Gram Panchayats do not care for proper collection of taxes. While Gram Panchayats receive lots of money from the government, elected representatives do not like to displease their electorates by charging taxes from the them. Further, section 46(5) authorises GPs to levy of an additional stamp duty of two per cent on all transfers of immovable property taking place within the jurisdiction of the GP and likewise an additional stamp duty of ten per cent on all admissions to entertainments. These provisions have not been duly utilised by the GPs over the last seventeen years.

Many Gram Panchayats have adopted Building Rules under which building plans are required to be approved on payment of a small fee; in semi-urban Gram Panchayats this can be a good source of income. Such building fees, trade license fees, fees on registration of non-motorised vehicles, fees for sanitary arrangements at fairs, etc. are also within the power of the Gram Panchayats. But all these sources are still remained unexploited by the Gram Panchayats.

Section 47(1) provides for rates for water, sanitation and electricity, where such services are extended by the Gram Panchayats; but these provisions have seldom been utilized by Gram Panchayats, because the Gram Panchayats rarely undertake the aforesaid services.

This present state of Panchayati finances has raised a question about the role PRIs play. Instead of playing the role of a true self-government, they are busy in playing an agency role. They receive allocations as well as instructions from central and state governments and execute the schemes and programmes accordingly. If PRIs remain entirely dependent on the assistance from above, it is derogatory to the dignity and autonomy of the self-government institution.

Field experiment: A study of the finances of Gram Panchayats of Phansi Dewa Block, Darjeeling District, West Bengal

To examine the existing scenario of Panchayati Finance and efforts made by the Gram Panchayats in mobilising finances from its own sources, six Gram Panchayats under the Phansi Dewa Block in Darjeeling district have been surveyed. Findings reveal that income of Gram Panchayats has increased tremendously. The average size of their annual income is above rupees one crore. Given the population of these six Gram Panchyats around 1,52, 000 as per 2001 census, per capital income of the Gram Panchayats on average has increased to Rs 652 approximately. However, revenue collection from own sources remains as low as six percent of their total receipts. In per capital terms amount is around Rs 42 only.

Table2 shows the amount of money each Gram Panchayat is earning from its own sources as well as the amount of money it receives as grants-in-aid from central and state governments.

On average Gram Panchayats are capable of mobilizing 6.4% of income from their own sources, while for 93.6% income they depend upon

Table2: Percentage of income mobilized by Gram Panchayats from own sources: Extracts from receipt and payment account of Gram Panchayats for year 2012-13				
Gram Panchayats	Income from own sources (Rs)	Grants & aid from Central and State Governments (Rs)	Total income (Rs)	Share of income from own sources in total income expressed as % of total income
1. Bidhannagar-I	15,15,956	16214239	1,77,30,195	8.5.
2. Bidhannagar-II	5,96,890	14652536	1,52,49,426	3.9
3. Chathat Bansgaon Kismat	4,34,631	15613677	1,60,48,308	2.7
4.Ghoshpukur	11,43,119	15542039	1,66,85,158	6.8
5. Hetmuri Singhijhora	7,11,850	16600257	1,73,12,107	4.1
6. Jalas Nizam Tara	19,87,141	14534386	1,65,21,527	12

the grants and aid from central and state governments. This is not in conformity with the principles of decentralization and self-governance.

The findings of this study corroborate the observations of State Finance Commission, which have been discussed in the previous paragraphs. In the process of implementing major State sponsored rural development programmes, Panchayats have been greatly transformed into extended machineries/agents of the State Government. Large sums of money have begun to flow to the PRIs every year as grants-in-aid; the Panchayats just implement the task of utilising such funds properly as per the principles laid down by the funding authority. As a result, most of the PRIs feel no need for giving emphasis on raising income from their own resources. The immediate effect of depending on external funds is that GPs become governed by highly centralised rules, which may not match to the PRIs own perception of its local needs. In the wake of these observations academicians as well as commissions have recommended larger devolution of untied funds to the PRIs, which they can utilise with much greater flexibility and freedom.

Chowdhury R K (1996) is of the opinion that since the essence of federation is self-governance, the Panchayati Raj Institutions, which represent grass-root democracy should have the responsibility of resource mobilization as they have the right to receive fund through transfer of resource

In the perspective of these trends Oommen M A, (1996) expressed concern. According to the author, essence of decentralization is self-rule and autonomy. Transfer mechanism in no way should result in dependency syndrome. Fiscal discipline and own resource mobilization are the keys to autonomy. A Panchayat may be said autonomous when at least 50% of expenditure liabilities are met by income from own sources.

Accrual basis of accounting and assessment of financial stability

Presently for maintenance of accounts and audit of the accounts of Gram Panchayats in West Bengal the state government has issued the West Bengal (Gram Panchayat Account, Audit and Budget) Rules 2007, which is essentially based on cash basis method. This system of accounting is theoretically unsuitable for evaluating financial stability of the institution.

As shown in **Table3**, Jalas Nizam Tara Gram Panchayat has a closing cash balance of Rs 43,36,102, which is exceptionally high. These figures of closing balances apparently indicate that the PRIs are financially solvent. However, this is untrue because these figures together reflect the unspent amount, which they have to refund to the funding authority or request permission for using them in the next financial year. These figures of closing balance can better be treated as an index of their inefficiency instead of financial stability. Financial Stability has to be assessed from an accounting standpoint, which has been explained in the following paragraph

Preparing just a report tracing how money comes in and how money goes out cannot be a right document to draw any conclusion about financial stability of the Gram Panchayats. Financial stability depends upon the position of assets and liabilities. So, there is a strong necessity to introduce accounting system on accrual basis, which can make documentation of the assets and liabilities compulsory. Assets created by them should be properly accounted for. Similarly liabilities should be enlisted. In real life operations of the PRIs, sometimes, liabilities accrue, but the existing system of accounting does not make its documentation until the payments are made. It results in showing a capital expenditure as an expenditure of revenue nature. This is a great deficiency of the existing accounting system of the Gram Panchyats. If this system of accounting is allowed to work, real financial position of the Gram Panchayats can never be understood. So, the paper strongly recommends introduction of accrual basis of accounting for the PRIs along with larger devolution of untied funds from central and state governments.

Summary and conclusion

Numerous constitutional and legislative efforts have been made for financial empowerment of PRIs. While in the seventies, the average income of a Gram Panchayat was Rs 1200 only, that has increased to an amount exceeding Rs 1.5 crore. However, a Panchayat's own efforts in mobilizing funds from its sources need thorough revamping. Otherwise, degrees of financial freedom advocated in the literature of self-government for PRIs will be subject to interference from external authorities. Cash balances left with the institutions at the end of each financial year are exceptionally high. However, these figures of cash balance should not be taken as an index of their financial strength, rather these figures should be counted as an index of their operational inefficiency. Unless the PRIs prepare a Balance Sheet of their assets and liabilities, making a comment on their financial stability is confusing as well as unacceptable. Thus the paper recommends that accrual basis of accounting should be immediately introduced for keeping accounts and financial records of the GPs. Finally, to be a true rural self-government the PRIs should learn how to provide more services to the villagers and collect fees and rates for making the services and amenities available to them.

Table3: Receipts and Expenses of Gram Panchayats of Phansi Dewa Block for the year 2012-13

Name of the G.P	Receipts (Total Amount)	Expenses incurred During the year	Closing Balance
1. Bidhannagar – I	1,77,30,195	14,539,029	3,191,166
2. Bidhannagar – II	1,52,49,426	1,25,11,291	27,38,135
3. Chathat Bansgaon Kismat	1,60,48,308	1,31,64,671	28,83,637
4.Ghoshpukur	1,66,85,158	1,41,55,494	25,29,664
5. Hetmuri Singhijhora	1,73,12,107	1,44,09,957	29,02,150
6. Jalas Nizam Tara	1,65,21,527	1,21,85,425	43,36,102
7. Phansidewa Bansgaon Kismat	89,68,488	70,88,318	18,80,170

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DEFERMENT OF PENALTY PROCEEDINGS PENDING APPEAL – WELCOME DECISIONS

Power of stay of penalty proceedings pending appeal is an incidental and ancillary power, which is ordinarily expected to be exercised fairly, since the law itself provides for deferment of penalty proceedings pending appeal. The appeal itself may be rendered nugatory making even the success in such appeal on merits to be of no value, where penalty proceedings are not stayed and penalty is levied and collected. What is needed to protect revenue for recovery of penalty, where justified, is to expedite disposal of appeal. Though stay of penalty proceedings pending appeal is a power to be exercised by the authority empowered to levy penalty, it should be possible to any appellate authority, supervisory administrative authority or the Courts to enforce stay.

Penalty proceedings should be deferred on request as decided by the High Court in Asst. CIT v. GE Industrial Ltd. [2013] 358 ITR 410 (Guj). In this case, the addition was as much as Rs.5.5 crores on application of transfer pricing rules. Penalty should not in such cases be leviable, even if addition may be justified, because it is an estimate based on artificial rules and not because of suppression of income, so that penalty proceedings should ordinarily be dropped irrespective of outcome in appeal. But denial of stay of proceedings in any case is unjustified. Where the Tribunal had granted such stay of proceedings, a writ petition came to be filed by the Income Tax Department to the High Court challenging the order of the Tribunal. Notwithstanding the absence of a specific provision conferring the power of the Tribunal to stay penalty proceedings, refusal to stay would make a nullity of the right of appeal, when the law itself provides for deferment of penalty proceedings till the outcome of appeal. In ITO v. M.K. Mohammed Kunhi [1969] 71 ITR 815 (SC), power of stay of demand was inferred for the Tribunal, though no such power was available to it in the statute. Same reasoning should apply for stay of penalty proceedings as incidental to the power to decide the appeal itself. It was on this reasoning the order of the Tribunal was upheld in this case.

In another case, where the Assessing Officer had levied penalty without awaiting the outcome of the pending appeal and such penalty was affirmed in first appeal, while merits of addition were pending in appeal, the Tribunal found that there was no reason, why penalty proceedings could not have been kept pending. The High Court, while admitting the departmental appeal pointed out, that if the assessee was successful in its appeal, no penalty could have been levied, while no prejudice would have been caused to revenue deferring penalty proceedings to await the order in appeal. The assumption, that penalty would have got time barred by such waiting overlooks the provision, extending the time limit for such cases under appeal, where deferment is allowed. The order of the Tribunal restoring the matter of penalty to the Assessing Officer under these circumstances was found to be valid and it was held that the department can have no grievance against the order setting aside, since penalty could be considered afresh after the decision in appeal. It was so decided by the High Court in CIT v. Wander Pvt. Ltd. [2013] 358 ITR 408 (Bom).

These two decisions by two different High Courts would require penalty proceedings to await finality on merits either at level of the first appellate authority or in further appeal to the Tribunal.

INTEREST ON INTEREST – A SETBACK FOR A MORE LIBERAL INTERPRETATION

Where interest is delayed, there is duty to pay interest under section 244A under the circumstances provided in that section. The Supreme Court in Sandvik Asia Ltd. v. CIT [2006] 280 ITR 643 (SC) conceded the right of the assessee not only to refund of tax and interest as provided in the section, but also interest on interest for every delayed grant of refund under section 244A of the Act for the period after the date on which refund had become due. Revenue in a group of cases had agitated against such a broad interpretation before the Supreme Court in CIT v. Gujarat Fluoro Chemicals [2013] 358 ITR 291 (SC). The Supreme Court on review of Sandvik Asia's case found that the decision rendered was one on facts, where there has been an inordinate delay in consequence of which the assessee was made to wait for the refund of interest for decades, so that great prejudice had been caused by such delay.

It was under these circumstances, that interest on interest was ordered for the entire period of delay in the light of the understanding of law under section 244A. By an amendment effective from April 1, 1999, it was made clear, the interest on refund under the contingencies referred therein alone would be payable. By characterizing the decision in Sandvik Asia's case as one rendered on facts, the decision stands nullified. The law after the decision is that not all interest payments, which have become overdue would justify interest on such interest, since interest is primarily on the amount of refund due.

Since interest is a statutory payment, it can be given only as provided in the statute. This inference now laid down by the Supreme Court is a departure from the proposition laid down by the Supreme Court itself, that interest is on amount wrongfully withheld from the party entitled to it. This is a proposition recognised against the assessee for example in section 234D of the Act. The fair view taken in Sandvik Asia Ltd.'s case (supra) will no longer be tenable.

WAIVER OF LOAN INCLUDING INTEREST – A WELCOME CLARIFICATION

Where an assessee was the beneficiary of waiver of loan including interest to the extent of Rs.11.60 crores, the Assessing Officer brought the entire amount to tax in the view, that the assessee became richer by this amount and that the amount attracts tax under section 28(iv) of the Act. In first appeal, the addition was deleted as such waived amount does not have the character of income. This was endorsed by the Tribunal and upheld by the High Court in CIT v. Gujarat State Fertilizers and Chemicals Ltd. [2013] 358 ITR 323 (Guj) following CIT v. Chetan Chemicals Pvt. Ltd. [2004] 267 ITR 770 (Guj). An amount waived by a creditor does not have the character of income even as held by the High Court in Mohsin Rehman Penkar v. CIT [1948] 16 ITR 183 (Bom) and upheld by the Supreme Court in C.Ag.IT v. Kerala Estate Mooriad Chalapuram [1986] 161 ITR 155 (SC). It was to neutralise the High Court decision, the interest to the extent allowed was brought to tax under sub-section (2A), inserted in section 10 of the Indian Income-tax Act, 1922 and now section 41(1) of the Income-tax Act, 1961. Apparently, no part of interest, which had been waived, had been allowed in this case as a deduction either because it was not claimed or it had been disallowed for non-payment under section 43B of the Act.

THE LONG SHADOW OF TAX: INTEREST BURDEN IN INDIRECT TAXATION

There appears to be no concerted analysis or coherent policy behind the formulation of provisions relating to the levy and collection of interest on belated payments of tax by the tax payers

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IT is a well-known axiom that taxes are the price we pay for civilization. The social contract which is the underpinning of a civil society will be anarchical without a state, the state will be infeasible without a government and a government will be impractical without financing itself by collecting taxes from the people. Still, Taxes are not an unmitigated prerogative of the kings and Governments. The safety and security of citizens as well as their collective wellbeing is the unwritten bargain behind the legally mandated taxes paid by the people. Theoretically a Government can survive by financing itself through means other than levying taxes. But such Governments would need to be a socialistic order owning all the means of production in the economy or operating the Government on commercial lines to generate revenues for its upkeep. Needless to say such Governments will be highly unpopular and the few that were attempted have not been durable examples in history. Thus, any Government worth its salt has always looked to survive on taxes either in cash or in kind. The modern Government is no exception. Religious scriptures do their bit by exhorting adherents to pay their dues to the Government. Of course, the Governments are not expected to levy tyrannical taxes. The taxes imposed on the people should be reasonable, proportionate to the paying capacity of the tax payers and should not degenerate into confiscatory levies.

The modern Governments have a legitimate interest in expecting a steady stream of stable tax revenues with reasonable certainty. The tax rates are fixed in advance as well as the time of payment for remitting the same. For a long length of time, the Governments collected taxes even when these were paid belatedly, without demur. In the last few decades, the Governments began to be concerned with belated payments of tax dues. The result has been the enactment of provisions in the statutes imposing an interest for belated payment of tax dues by the tax payer. It is difficult to find a modern tax system without a provision for charging interest for belated payment of the tax.

A conceptual dilemma– should tax interest be compensatory or penal or a bit of both?

In levying tax interest, the tax administrations are faced with an existential dilemma. They have to possess data on the instances of belated payment of tax and to ascertain whether such a practice is widespread or well within manageable proportions. In the event it is found that in the tax economy belated payments do not choke the periodic flow of tax revenues, the rate of interest for belated payment ought to be in the nature of compensating the Government for the late recovery and such interest should not be taken to penal limits. If on the other hand, the belated payments are the order of the day or sizable, the tax administrations will have to actively discourage the trend which may be done in part by setting tax interest at penal rates. Thus, the rationale for fixing the rate of tax interest should remain linked to the tax payment trends in the tax economy. In India, it is virtually certain that there is no such consideration behind setting the rate of tax interest. There have been conflicting decisions from the top judiciary as to whether tax interest is compensatory in nature or penal in its character. In the case of Pratibha Processors vs Union of India – AIR 1997 SC 138, the Court held that the tax interest essentially is compensatory and different from a penalty which is penal in character. However, in the case of Star India Pvt Ltd vs CCE, Mumbai and Goa – (2006) 1 STR 73 (SC), the Court held that interest is a quasi-penalty. Thus, confusion prevails in our country regarding the proper conceptual understanding of tax interest. Ideally, the levy and rate of tax interest should be linked to the degree of prevalence of belated payments of tax in the relevant tax economy. Now let us analyse certain situations and cases regarding the interest charge for the belated payment of tax.

Levy of interest for belated payment of tax is a substantive law

In JK Synthetics vs. CTO (1994) 44 STC 422 (SC), it was held that any provision made in a statute for charging or levying interest on delayed payment of tax must be considered as substantive law and not an adjectival law and interest was not payable on the additional sales tax from the date on which the returns were filed but interest had to be paid only from the date subsequent to determination of sales tax.

Interest can be collected only if there is a stautory basis

In the case of India Carbon Ltd vs. State of Assam (1997) 106 STC 460 (SC), the Apex Court held that interest can be levied and collected on account of delay in payment of tax only when the statute that levies and charges the tax makes a substantive provision in this behalf. Thus, it is clear from the judgment as well as the previous case that unless the main tax Act contains the provision for charge of tax interest the interest cannot be collected even if such interest is provided for in the subordinate tax rules or in executive circulars.

Adoption of incorrect method of payment does not create interest liability

In the case of Commissioner of Central Excise, Tirunelveli v. Sterlite Industries (I) Pvt Ltd – (2011) 21 STR 534 (Tri – Chennai), the Tribunal held that where service tax had been paid by debit to CENVAT Credit Account, with such debit not being admissible and the error being corrected by payment of service tax in cash, the case was not one of failure to make payment but an adoption of an incorrect method and hence interest under Section 75 was not attracted.

When assessee pays a time-barred demand of tax

In the case of TCP Ltd vs. CCE, Madurai – (2006) 1 STR 134 (Tri – Chennai), where a time-barred demand was honoured by the assessee, it was held that imposition of interest was mandatory of such belated payment.

When a company is declared sick by BIFR

Even when a company is declared sick by BIFR, the provisions of interest under the statute are mandatory without any scope for leniency. This position was taken in Sri Vadivambigai Textiles Mills Ltd. vs. CCE, Madurai – (2005) 179 ELT 151 (Tri – Chennai).

Interest payable for the actual period of delay and not for a whole month

Interest can be charged for the period of delay alone and not for full month, if the delay is for part of the month. This ratio was laid down in the case of BPL Mobile vs. CCE – 2006 (3) S.T.R. 478 (Tribunal– Chennai).

No compound interest unless specified

The tax interest cannot be charged at a compound rate unless the statute provides for it. The tax interest is otherwise is a simple interest. This principle was laid down in the case of DUGAR IMPEX vs COMMISSIONER OF CUSTOMS – 2003 (154) ELT 576 (Cal SC)

Interest when tax is imposed with retrospective effect

In the case of Star India Pvt Ltd vs. CCE – (2006) 1 STR 73 (SC), it was held that since interest is quasi-penal it cannot be recovered with retrospective effect if the law is amended retrospectively.

Interest allowable for deduction for income tax

Nomenclature of the tax impost is generally considered not conclusive of the deductibility. If the interest charged is compensatory in nature, it will be permissible for deduction. If it is partly compensatory and partly penal, the assessing authorities are obligated to split the components and permit deduction for the compensatory component. The ratio was taken in Prakash Cotton Mills Pvt Ltd vs. CIT – (1993) 3 SCC 452 and followed in Swadeshi Cotton Mills vs. CIT – AIR 1999 SC 1579.

Rates of tax interest in indirect taxation

In the Union Indirect Taxation relating to the levies of Customs, Central Excise and Service Tax, the present rate of tax interest is set at 18% per annum in almost all the cases. The rate of 18% is seen as unduly steep and such a rate is not supported by any empirical findings of a widespread pattern of belated payments of the duties and taxes deserving to be sternly discouraged. The rates of tax interest in states-level Value Added Tax are also very steep. In many states, the rates vary and extend upto 24%. In the Indian statutes levying such tax interest, there is no provision for full or partial relief on account of mitigating factors such as sudden economic crisis, floods, drought or a customer fraud etc. It would be useful to develop a comparison with rates of tax interest in other advanced jurisdictions.

In the United Kingdom

In Britain, depending on the turnover as well as excluding a de- minimis sum of unpaid tax, the interest burden for delayed tax is described as default surcharge calculated as a percentage of the unpaid VAT at the due date. It ranges from 2% for the first 12 months of default, to 5% for the next 12 months, 10% for the next 12 months and 15% fro the next 12 months.

In Canada

Interest rates for late remittances vary from quarter to quarter and for the calendar year 2013, the rate is 5% for the first three quarters and 6% for the last quarter.

In Ireland

In Ireland, the Vat circular issued by the Vat department is extracted as follows.

"Interest on late payment of VAT and on overpayment of a VAT refund

Where VAT becomes payable by an accountable person but is not paid, simple interest is charged at a rate of 0.0274% per day, or part of a day, during which the amount remains unpaid.

Simple interest on a daily basis at that rate is also charged in cases where a VAT refund had been made but either:

1. No amount of VAT was properly refundable, or
2. The amount of VAT refunded was greater than the amount which was properly refundable.

It should be noted that if an expression of doubt is accepted by Revenue as genuine, interest is not applied to any tax payable on the resolution of the matter in doubt".

What is an expression of doubt in the Irish VAT system?
Letter of Expression of Doubt

"VAT law provides that where a person is in doubt about the application of VAT law to a transaction, including the rate of VAT, they may lodge a letter of expression of doubt with Revenue. If the expression of doubt is accepted by Revenue as genuine, interest is not applied to any tax payable on the resolution of the matter in doubt. In the event that Revenue refuses to accept that the expression of doubt is genuine, the taxpayer may have such refusal referred to the Appeal Commissioners".

Conclusion

There appears to be no concerted analysis or coherent policy behind the formulation of provisions relating to the levy and collection of interest on belated payments of tax by the tax payers. The rates of tax interest are now ruling at penal levels thereby considerably enhancing the actual burden of tax since the interest cannot be passed on down the trade chain. The blind-folded rates cut across the board displaying no sensitivity to individual mitigating circumstances or the hardships being experienced in the wider economy. Compare this with interest subventions for the exporters and the latitude shown for the delayed remittance of forex earnings into India. The domestic tax payers bring large and much-needed revenues to the treasury with which the government is maintained. In many statutes there are self-policing penalties on tax payers in addition to the tax interest and other penalties of a harsher kind. For example, section 76 of the Finance Act, 1994 prescribes in addition to tax interest of 18% per annum (apart from a potential penalty of 100% of the tax under Section 78) a sum of Rs.100/- per day or 1% of the tax per month whichever is higher, extending to a possible maximum of the tax as a normal kind of penalty. Since all the indirect taxes are mostly based on accrual and not on receipt of consideration, the tax administrations should set tax interest for belated remittance of tax at reasonable levels linked to the interest rate payable on Government bonds and punish deliberate or consistent belated payment of tax by tax payers by means of specific penalties. In other words, with all the indirect tax statutes sternly showing a wide range of penalties for every offence, there is a compelling need to tone down the steep rate of tax interest in line with empirical trends in India and benchmark them with international best practices. Provisions in the statutes are also needed to waive interest burden in deserving cases of established hardship. It may not be wise to bite with penal interest the hands that feed the treasury. MA

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HARMONIZATION OF ACCOUNTS FOR BOTSWANA TAX AND FINANCIAL REPORTING

Companies in Botswana are providing two different accounts – one for the Registrar of Companies, stake holders and another for Botswana Unified Revenue Services (BURS), which is ridiculous, say the authors

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IN a broader sense harmonization in the accounting world is seen as reconciliation of International Accounting Standards with that of the domestic accounting standards which are generally practiced in that country. Accounting standardization differs with the accounting harmonization. Accounting standardization requires uniform standards in all participating countries (Paananen, 2003) where as harmonization is a process of coordination, and standardization is a process of uniformity (Canibano and Mora 2001). Voluntary accounting harmonization is located across the world due to the attraction of foreign capital (Land and Lang, 2000; Cairns 1997).

The first ray of light in accounting harmonization is traced in the year 1973 when International Accounting Standards were issued by International Accounting Standards Board (Leuz, 2003) and by 1983 the Board issued 21 International Accounting Standards. These standards were criticised in view of their too much flexibility as seen that 14% of these standards allowed flexibility in adoption. This resulted in weakness in harmonization process in Accounting. There upon, International Accounting Standards Board (IASB) took up a serious view in the harmonization process. Since 2001 the IASB has been involved in an unprecedented task of harmonization and formulation of standards of best practice in accounting (McGrew and Robotti, 2006).

Literature review

It is noticed that many scholars have done research on the harmonization of International Accounting Standards. There is no research embarked on the harmonization of accounting for taxation in relation to financial reporting. Hence an in depth reviews of the existing literature in harmonization of Accounting and Taxation is required. In order to capture the insight of the existing literature on the subject concerned the scholars desired to classify the existing literature into the following areas, namely (i) harmonization of International Accounting Standards within (ii) harmonization of Taxation (iii) harmonization of International Accounting Standards, Financial Reporting and Taxation and (iv) harmonization of Accounting for Taxation and Financial Reporting.

Harmonization of International Accounting Standards (within)

The need for accounting harmonization arose across the world due to the development of competition, globalization, unprecedented growth in cross-border flow of capital and integration of the capital markets. In order to help the global efficiency of the market, the adoption of International Accounting Standards (IAS) is a pre-requisite. This requires comparable accounting information based on superior-quality standards, an accounting information to consolidate and not to obstruct the global efficiency of the market (Boston, 2010). The initial application of IAS was seen as disharmony in income statements and audit reports (Karapinal et al., 2008). Patrick (2006) has noted the international politics in standards setting by International Accounting Standards Board (IASB) and clearly identified that USA insists on the adoption of IAS because of pressure from the Securities and Exchange Commission, an agent of Congress, overseeing the Financial Accounting Standards Board, which is responsible for setting accounting standards.

In European Union, it was noticed that there was divided opinion about the application of IAS in total and it was observed that there was no harmony even in adoption of IASs. In contrast Fernandes et al., (2007), from their comparative study identified in Portuguese the existence of conservative practices in the Portuguese accounting with that of standards set by IASB. Further they were of opinion that the standards set are useful for both European Commission and the IASB as they provide some insight into the properties of accounting figures in Portugal. The process of harmonization of European accounting systems, involves significant changes to the financial instruments that affect all types of enterprises, more so in cooperative organizations. In view of this problem, Feijoo and Cabaleiro (2007) suggested having alternative proposals for the classification and accounting of share capital in cooperative organizations.

Turkey adopted IFRS as part of globalisations of accounting standards and tried to harmonize local accounting standards with IFRS by adoption of IFRS (Elcin and Dursun, 2011). Kristin (2004) argued for creation of new set of separate accounting standards for Islamic Banks as their accounting system is different compared to their counterparts across the globe.

In Australia, it is observed that harmonization of Australian and International Accounting Standards developed controversy more so in the requirements 'for companies to calculate the fair value of their derivatives positions and reflect any change in that value in the profit and loss statement; Companies' use of derivatives to hedge their exposure to currency movements (John, 2004).

Many problems were noticed across the globe in adoption of IAS due to lack of harmony within the standards. It is worth to quote Dumitru (2010:80) here about the accounting harmonization and the problems encountered by the corporate bodies in adoption of accounting standards.

"Although [Norms of European Directives, or based on the General Accepted Accountancy Practices in U.S.A or International Standards of Financial Reporting] between these accountancy systems, there exist harmonization or convergence there did not arrive to uniformity in financial reference at a world level. So, to enter the international capital markets, a multinational company must make up several sets of financial situations, through reconciliation of the indicators according to applicable accountancy norms in the state in which has its residence and those of the state where is located the market of capitals. In the context in which there is not any unique accountancy reference, with rigid accountancy standards in which to be reduced the possibility of utilization alternative treatments the management of the economical entities must select and establish a set of methods, conventions, fundaments, rules and specific practices which make together accountancy politics of the entity. Adequate accountancy politics to economical context in which the entity is developing its activity, assure real information, complete and relevant, and in this way the financial situations offer to the users the accurate image of the position and the financial performance of the entity"

Harmonization of accounting is possible, if the regulators such as Association for Financial Professionals, Financial Accounting Standards Board and International Standards Board navigate the systems with caution (James, 2010). In line with this Switzerland adopted Basel II to harmonize both the regulatory and supervision system in financial institutions in order to avoid crisis in financial or corporate bodies, applied both quantitative and qualitative risk analysis in financial institutions, looked into supervisory matters and proposed greater market discipline and transparency (Martinez, 2007).

It is seen that there is a problem in harmonization of accounting within International Accounting Standards and the IASB has been trying its best to harmonize the accounting standards across the globe for easy flow of capital.

Harmonization of International Accounting Standards and Local Accounting Standards

Adoption of different accounting standards resulted in different profits (which impact on income tax) such as in pharmaceutical industry where the cost of R & D is heavier and applying different approaches of treating this cost get different profits. Harmonization of Accounting Standards across the industries and linking with local accounting standards will result in uneven display of the return on capital (Grant, 2004). Hence, a few researches were under taken such as Vallisova et al., (2011) who attempted to detect the main differences between IAS/IFRS with that of Czech accounting systems and to harmonize Czech accounting with that of accounting global trends. By using the "lens of agency theory and institutional theory ", Torbjorn (2007) explored the impact of local legislation and influence of Associations in the harmonization of accounting more so in Swedish Municipal Accounting and concluded that the local legislation had any effect on harmonization of accounting. Cross boarder harmonization of accounting by application of International Accounting Standards is dependent of politics (local legislation) than purely domestic utility (Elliot, 2004).

It is apparent that there is lack of harmony of application of IAS and also in harmonization of IAS with that of local accounting standards. In such a situation, expecting harmonization of Accounting Standards with that of Taxation Standards may be a remote possibility due to the influence of local economy and the revenue needed in a particular country. However, many countries tried their best to harmonize Taxation within their countries such as European Union.

Harmonization of Taxation

In order to have a single market within the region such as European region, SADC region etc, and tax harmonization is desirable as would facilitate the free movement of goods and services. Nightingale (2002/03:4) observed in context with the Tax harmonization as "the philosophy of the single market in Europe is to provide for the free movement of goods/services, capital and people between member states, suggesting harmonisation to be a modern objective of European tax systems". Just like Accounting Standards are to be harmonized within the country, taxation is also to be harmonized through harmonizing tax base, tax rates, tax systems, abolishing withholding taxes and other non-value-adding bottlenecks which may promote within the region (country) efficiency, lower administrative costs, avoidance of transfer pricing problem and encouragement of mergers (Nightingale, 2002/03). In addition, there will be uniform approach and that would be easy to understand and apply. It is viewed that tax harmonization is necessary in the area of reduction of tax incentives so that the revenue generated be shifted to production facilities between different countries (Peter, 1990).

It is observed that tax harmonization was first initiated and motivated by EU Commission since 1980 in order to have more efficient use of resources (Faik, 2010). Like International Accounting Standards, tax harmonization process seriously commenced in 1993 in Europe encompassing the abolition of controls at the intra-Community boarders (Han, 2012) but German politicians had shown different attitudes towards tax rate harmonisation (Steffen and Friedrich, 2013).

Based on the economic benefits that resulted out of tax harmonization, the countries Newfoundland, New Brunswick, and Nova Scotia attempted tax harmonization and merged their provincial retail taxes with the Federal Goods and Services Tax. Colby, 1996 Eva (2011) noticed tax harmonization within European Union through direct and indirect taxes harmonization. Marko and Paul (1995) quantified the consequences of harmonization of indirect taxes for Luxembourg.

Harmonization of Accounting Standards, Financial Reporting and Taxation (Local requirements)

We observed that there is lack of harmony in application of Accounting Standards within the standards and also disharmony of IAS with that of local accounting standards. In such situation, expecting accounting harmony in application of IAS, Financial Reporting and Taxation may be out of question. Still it is necessary to investigate the reasons for lack of harmony, across the three variables in accounting.

In US there are two parallel Institutions which are directing the accounting standards such as US Generally Accepted Accounting Practice (GAAP) and International Financial Reporting Standards Board (IFRSB). They have conflict of opinions, judgements, application and adoption; still US should dictate the accounting standards. This is due to their economic inter-dependence (Elliot, 2008). When these two Institutions could not go together in accounting harmonization, the question of harmonization of Financial Reporting Standards and that of Taxation is a dream.

Even in Europe, it is observed that accounting harmonization of IAS standards and local regulations pertaining to internal corporate governance resulted in stiff resistance from member States in European Union and the so called harmonization is derived by supranational authority (Susanne and Dagmar, 2008). The European Union countries support their own national corporate income tax laws (Beatric, 2011) and the question of harmonization of IAS with that of tax laws may be out of reach. However, James (2005) examined the link between the principles based accounting standards with that of International harmonization. There appears to have a controversy about the implementation of certain IASB standards in the EU due to economic and political reasons (Patrick, 2005).

Harmonization of Accounting for Taxation and Financial Reporting

Palomares and Corona (2009) identified in their research that adoption of IFRS reduced the gap to US GAAP, but at the same time they are of the view that IFRS adoption process has led to a temporary increase in the existing gap to US GAAP for the net profit (NP). There is no uniformity [or consistency] in the approach of IFRS, International Tax Laws and local Tax Laws (Johanna, 2008); there is a need to review the international laws with that of local tax laws before accounting harmonization.

It is observed that the pres-

Table1: Lack of harmony in presentation for IAS and Income Tax Accounting for Botswana

Depreciation (IAS)	Annual Allowance (Income Tax)	Initial allowance (Income Tax)
Definition of depreciation:		
It is a charge against earnings to write off the cost. It is the diminution of the value of the asset, being used in the business. It is a bookkeeping entry, and does not represent any cash out lay. International Accounting Standards defined as "allocation of the depreciable amount of an asset over its estimated useful life. (IAS 4: 1999, p.132)	Annual allowance is defined as "the annual allowance, which would have been granted in respect of any item of property if no restriction had been imposed under the paragraph 2 (2) of Part II Schedule III of Income Tax of Botswana, 1995.	Initial allowance is defined in Income Tax Act of 1995, Part I of Schedule III. It is an allowance given to an approved industrial business on the erection of industrial building and on the improvements of the said buildings.
Basis for the provision		
As per IAS, "depreciation for the accounting period is charged to net profit or loss for the period either directly or indirectly"	The basis is Income Tax Act. This allowance is allowed to reduce the business assessable income in order to arrive at chargeable income	Part I of Schedule III provided the basis.
Purpose of the provision		
By means of this provision, the business can accumulate that much of cash to replace the old and worn out asset	As depreciation is not allowed as a deduction in Income Tax Law, the annual allowance is granted for the use of an asset in the business. The main purpose is to reduce the tax liability.	Initial allowance is the first allowance given to taxpayer for the Industrial building, so as to give an incentive for the industrial development. Definition of Industrial building is very wide covering with the buildings where machinery is in operation, where the building is corroded due to chemical, corrosive substances, furnaces of any kind etc., buildings where industrial research is carried out, buildings erected for hotels etc.
Methods		
There are various methods of charging depreciation. Once a particular method is adopted, the business cannot change it again to another method.	Income Tax Act provides different annual allowances for different assets. Commercial vehicles at 25%; Commercial building at 2.5%; Machinery from 10 to 25% depending upon the nature of the machine. Computers at 25%. CGT issued directive for the annual allowances.	The initial allowance is only once in the life of the Industrial building at 25% of its value on the day it is first used or on the day when major improvements are made. If it is not claimed during the first year, it cannot claim the same in another year.
Disclosure		
In the Financial statement the following items are to be disclosed, relating to depreciation. Depreciation method used. Depreciation rates. Total depreciation allocated for the period. The gross amount of the depreciable assets and the related accumulated depreciation	There is no specific disclosure requirement. However, the business has to disclose the annual allowance so far received, so that the total annual allowance can be restricted to 100% of the cost of the asset.	Though there is no specific provision for its discloser, it has to show in the books to restrict the total allowance, inclusive of annual allowance restricted to 100% value of the Industrial Building.
Example		
ABC Company has the policy to write off its assets on straight-line basis at 10% of the asset value. It has heavy machinery value of P100 000. The depreciation charged is P10 000 per annum.	ABC Company having industrial business is allowed at 25% annual allowance on its heavy machinery. Heavy machinery, the annual allowance is P25 000 on P100 000 value.	ABC Company purchased a building during the year and commissioned for industrial purpose. It can write off at 25% of the cost of the industrial building in addition to 2.5%, annual allowance. Industrial building commissioned during the year having a value of P200000. The initial allowance is P50 000 and in addition the annual allowance is P5 000. Next year onward it should claim only an annual allowance of P5000 for a period of 29 years.

entation of depreciation of assets as per the IAS and per Botswana Income Tax Law is different. Before suggesting the way of harmonization, the scholars were analyzing the differences in the following **Table1.**

Case study

Based on the foregoing discussion and analysis of various methods adopted as per IAS and Income Tax Law of Botswana the scholars took up 9 public companies in Botswana by adopting random sampling (from the companies listed in Appendix A) to overview the divergences between these systems and to compare with Income Tax requirement so that both systems could be harmonized.. For the purpose of maintaining confidentiality of the disclosures, the scholars have given the codes for each company as A001 to A009 for public limited companies and B010 for Income Tax Accounting approach.

Table2 highlights, the depreciation (annual allowances) charged as per the financial accounts and (A001-A009) and for Income Tax purposes (B010). The analysis revealed that companies in Botswana are charging depreciation from 2 to 10% on buildings across the board, where as Income Tax Accounting requires 2.5% annual allowance and 25% initial allowance on Industrial buildings subject of 100% in total allowable allowance. The depreciation for motor vehicles varies from 10.33% to 33.3% where as for income tax accounting purpose, one has to provide at 25% annual allowance, restricting the total values of the non commercial vehicle up to P175 000. As per financial accounting, the depreciation on plant and machinery is provided from 10.33 to 25% where as in Income tax accounting one has to provide from 10-25% based on the nature of the plant and machinery. In financial accounting the companies provide the depreciation on furniture and fittings from 10 to 25% where as in Income Tax, one has to provide at 10%. Companies varied in provision of deprecation for computers from 14.3 to 33.3% where as for Income Tax, the company is to provide at 25%. In case of office equipment, the companies deprecate them at 10 to 33.3% where as in Income tax; the provision is at 15%. In all companies, including Income tax accounting, the provision of depreciation is on historical cost basis and on straight line provision.

Conclusion and recommendation

It is ridiculous to show different types of profits one for financial accounting and another for income tax. In other words, the companies in Botswana are providing two different accounts – one for the Registrar of Companies, stake holders and another for Botswana Unified Revenue Services (BURS). The main objective of any shareholder is getting the maximum return on his (her) share value. The amounts paid to the shareholder are out of after tax profits. Hence it is suggested to harmonize both accounts and to restructure accounting as per the requirements of Income Tax Act of Botswana. This suggestion is mostly applicable for the vast private limited companies in Botswana which do not require the application of International Accounting Standards and not subjected to financial audit. The accounts of these private limited companies are subjected to audit from Botswana Unified Revenue Services (Income Tax Department). Hence, it is ideal to adopt the income tax requirements as accounting system which saves headache of reconciliation of accounts, time and fees paid to the so called tax consultants.

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Table2: Percentage of depreciation charged							
CO	Buildings	Motor Vehicles	Plant & Machinery	Furniture & Fittings	Computers	Office equipment	Method
applied							
A001	2.0	25	NA	10	14.3	14.285	Straight line
A002	2.5	25	15-20	10	25	20	Straight line
A003	2.0	20	NA	20	14.3-33.3	14.3-33.3	Straight line
A004	NA	12.5-25	15-25	10-15	15-25	15-25	Straight line
A005	NA	25	20	25	33.3	20	Straight line
A006	10	10-33.3	10-33.3	10-33.3	25-33.3	10-33.3	Straight line
A007	2	33.3	NA	10-14.3	20-33.3	20-33.3	Straight line
A008	Life	16.67	20	20	25	25	Straight line
A009	5	25	NA	10-20	25	10-25	Straight line
B010	2.5*	25**	10-25	10	25	15	Straight line

Note: B010_ Capital Allowances, Third Schedule, Income Tax Act of Botswana; * In addition to the annual allowance, an industrial building is given an initial allowance at 25% and the maximum allowance is restricted to 100%. ** The allowance is claimable up to P175 000 value of the vehicle other than commercial vehicle.

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INTERNATIONAL ACCOUNTING STANDARDS AND THE IASB HAS BEEN TRYING ITS BEST TO HARMONIZE THE ACCOUNTING STANDARDS ACROSS THE GLOBE FOR EASY FLOW OF CAPITAL

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Appendix A

- Domestic Companies
- African Banking Corporation Holdings Limited
- Barclays Bank of Botswana Limited
- Botswana Insurance Holding Limited
- Chobe Holdings Limited
- Choppies Enterprises Limited
- Cresta Marakanelo Limited
- Engen Botswana Limited
- First National Bank Botswana Limited
- FSG Limited
- Furnmart Limited formely "Furniture Mart Limited"
- G4S Botswana Limited
- Letlole La Rona Limited
- Letshego Holdings Limited formerly "Micro Provident Botswana Limited"
- New African Properties Limited
- Olympia Capital Corporation (Botswana) Limited
- PrimeTime Property Holdings Limited
- RDC Properties Limited
- RPC Data Limited
- Sechaba Brewery Holdings Limited
- Sefalana Holding Company Limited
- Standard Chartered Botswana Limited
- Turnstar Holdings Limited
- Wilderness Holdings Limited(Botswana) MA

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ADVANCE PRICING AGREEMENT (APA): A DISPUTE RESOLUTION

This analytical research work focuses on possible tax implications arising from offshore transactions adopted by related enterprises spread over two sovereigns

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The Transfer Pricing (TP) mechanism is often used by manipulating transfer prices in related party transactions. MNCs can reduce the global incidence of tax by transferring higher income to low tax jurisdictions or greater expenditure to those jurisdictions where the tax rate is very high.

There has been a conflict of interest: the taxing authorities in a sovereign and a taxing jurisdiction in a country forces the MNCs to recognize more profit and consequently pay more tax in its jurisdiction. In view of this, the Indian government introduced new transfer pricing provisions in our income tax law mostly in line with the Organization for Economic Co-operation and Development (OECD), Paris, Guidelines and has incorporated certain components of the legislation of China and South Korea.

The APA is an agreement between the supplier of a product i.e., the assessee entity in the host country and furnishing an invoice to the other trading partner in a foreign country. The pricing followed in the invoice under an international transaction must be acceptable in equal terms to the Assessing Officials of both the countries in the same terms and conditions. In case the Assessing Officials of both host country and the counter country do not agree to the pricing quoted in the invoice, it gives rise to the contest for demand for tax liability in both the territories. In order to mitigate this kind of dispute in the globalised trading regime, the trading nations have accepted their reciprocal obligations to their respective domestic tax authorities. APA is an arrangement in the form of a pricing agreement which supplements Transfer Pricing mechanism.

In this backdrop we may now proceed to lay down the objectives of this study.

Objectives of the study

The present study has been undertaken with the following objectives in view:

1. To examine the operational aspect of Advance Pricing Agreement (APA) among associated enterprises;
2. To analyse the impact of APA on Transfer Pricing Agreement in respect of off-shore transactions;

Research methodology

Secondary information from books, journals, newspapers and websites relating to Advance Pricing Agreement were reviewed. In addition, the Tax Payer's Information Series-43 issued by the Income Tax Department of India was extensively referred to in order to gain a meaningful insight into the working of the APA program in the country. Further, OECD, Paris Guidelines on APA has been also considered so far it relates to its bearing on Indian context.

It is a kind of analytical research work focusing on possible tax implications arising from offshore transactions adopted by related enterprises spread over two sovereigns.

Conceptual framework

Before jumping straight into the operational mechanism of APA it would be prudent to get an idea on the conceptual framework constituting an APA program.

The concept of APA was applied for the first time in Japan under a caption pre-confirmation system (PCS) in 1987. Once it is done by a single country unilaterally of its own it is known as unilateral APA. While on the other the US Treasury Department tested APA in 1988 which was published in a White Paper captioned 'A Study of Inter Company Pricing' and USA finally adopted its own APA set of rules in 1991. When other countries started adopting APA as a means of streamlining tax liability on income derived from offshore transactions among associated enterprises it became an worldwide phenomenon. Considering that aspect OECD came out with a set of APA guidelines in 1999. Some of those Guidelines have been adopted by the tax administration in India while amending Section 92B, 92C and 92AA of the Income Tax Act under the Finance Act, 2009[1].

We shall now discuss some terminologies, the understanding of which assumes significance owing to their association with an Advance Pricing Agreement (APA).

➔ **Transfer Pricing:** Transfer price is the amount used in accounting for transfer of goods or services from one place to another or from one company to another which belongs to the same parent company. Transfer pricing through an international invoice is adopted with regard to pricing of goods, services between the two or more entities within the same group company controlling the operations of the subsidiaries. Transfer pricing agreements, between the associated enterprises, in respect of offshore transactions attract tax liabilities of the enterprises in both the sovereigns.

➔ **Associated Enterprise:** As per Section 92A(1) of the Income Tax Act, 'Associated Enterprise' in relation to another enterprise means an enterprise:

a) which participates directly or indirectly or through one or more enterprises in the management or control or capital of the other enterprise; or
b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital are the same persons who participate in the management or control or capital of the other enterprise.

There are some conditions stipulated to determine an associated enterprise as indicated below:

1. Section 92A (2) stipulates that two enterprises shall be associated, if at any time during the year, the conditions for association whether by holding of capital or granting of loans are satisfied.
2. Section 92A (2) provides that if an enterprise holds shares carrying 26 percent or more of the voting power in the other enterprise, then the two enterprises will be deemed to be associated.
3. Further holding shares which constitute at least 26 percent of the share capital of an enterprise would not per se trigger off these provisions if the shares do not carry voting rights.

➔ **International Transaction:** International Transaction has been defined under Section 92B(1) of the Income Tax Act, according to which international transaction means a transaction which is between two or more associated enterprises, either or both of whom are non-residents. It broadly covers the following:

- ❑ Purchase, sale or lease of tangible or intangible property;
- ❑ Provision of services;
- ❑ Lending or borrowing of money;
- ❑ A transaction of business restructuring or reorganization entered into by an enterprise with an associated enterprise;
- ❑ Any transaction having a bearing on the profits, income, losses or assets of such enterprises;
- ❑ Mutual agreement or arrangement for the allocation or apportionment of, or any contribution incurred in connection with a benefit, service or facility provided to any one or more associated enterprises.

➔ **Covered Transaction:** Covered transaction means the international transaction for which an agreement has been entered into between the tax payer and the taxing authority and submitted to the tax authorities for approval.

➔ **Arm's Length Price (ALP):** According to Section 92F (ii), ALP means a price which is applied in a transaction between persons other than associated enterprises. It is applied between unrelated persons. Further the price between unrelated persons would constitute an ALP only if such persons have transacted in uncontrolled conditions. Thus, ALP is price applied between unrelated parties and uncontrolled conditions. Section 92(1) says arm's length principle would only apply to an international transaction

[1]The Chartered Accountant Journal, December 2011

from which income arises. Even in cases where no income arises from an international transaction, ALP may need to be carried out and documented. Section 92(D) provides that every person entering into an international transaction shall keep and maintain certain documents regarding the same; while Section 92(E) provides that such person shall furnish a report from an accountant. The ALP was triggered mainly by the US regulations in 1990 on intangible, tangible and cost sharing. As per Section 92C the different methods of computing ALP are as follows:

- ❑ Comparable Uncontrolled Price Method
- ❑ Resale Price Method
- ❑ Cost Plus Method
- ❑ Profit Split Method
- ❑ Transaction Net Margin Method
- ❑ Such other method as may be prescribed by the Central Board of Direct Taxes (CBDT)

➔ **Advance Pricing Agreement (APA):** Section 92CC defines APA as an agreement entered into, with the approval of Central Government, between the CBDT and any person, which determines, in advance, the ALP or specifies the manner of determination of ALP (or both), in relation to an international transaction. In short, Advance Pricing Agreements (APAs) are agreements made in advance between tax payer and tax authorities about the pricing of the related party transactions of the tax payer for a specific period of time. These related party transactions are called Transfer Pricing which eventually leads to the occurrence of a dispute.

➔ 'Any Person': According to Rule 10G of the Income Tax Act, 1961 any person who has undertaken an international transaction or is contemplating to undertake an international transaction is eligible to apply for an APA and is termed as 'any person' for the purpose.

Having understood the different terms associated with an APA, we may now dive into the operational mechanism of such an agreement in consonance with our Objective No. 1.

Advance pricng agreement (APA) among associated enterprises: operational mechanism

An APA is primarily an agreement between assessee and the tax officials within the host country as a part of the global practice for some set of transactions called 'covered transactions'.

APAs may be subdivided into three types:

a) Unilateral
b) Bilateral and
c) Multilateral

A unilateral APA is an agreement between the CBDT and the tax payer. A bilateral APA is one in which the taxpayer enters into an agreement with the CBDT and one foreign tax administration under the authority of the mutual agreement procedure (MAP). On the other hand, when one tax payer enters into APA with the CBDT and more than one foreign tax administrations it becomes a multi-lateral APA.

The process of APA involves 14 stages:

1. Pre-filing consultation
2. Furnishing the application
3. Acceptance/rejection of an application
4. Action by tax payer, assessing officer and the TP officer
5. Amendment to the application
6. Assignment of an application to the APA team
7. Examination and analysis of an application
8. Conversion of unilateral APA to bilateral APA
9. Entering into a unilateral APA
10. Negotiation by the competent authority and entering into an APA
11. Action by the tax payer and the assessing officer on entering into an APA
12. Annual compliance report
13. Compliance audit of the agreement
14. Cancellation and revision of APA[2]

Before formally filing an APA application to the tax authorities the concerned trader shall appeal for a pre-filing consultation with the Director General Income Tax (International transaction). However, furnishing of an APA application is not mandatory after pre-filing consultation. If the assessee finds it worthwhile to materialize its international trading obligations, it may go for filing of the APA application. The applicant of APA is required to pay a certain amount as fees, based on the amount of international transaction entered into, which ranges from 10 lacs to 20 lacs. The APA application will be signed by the person who is competent to sign its Income Tax Return. This application will contain items such as scope of the agreement, conduct of FAR analysis, transfer pricing method followed in Arm's Length Price (ALP), the different aspects of the 'covered transaction' and any kind of variation and adjustment necessary for the covered transaction. The assessee also have the option to make some changes in the application, on payment of required fees, at a subsequent stage, by making an appeal to the DGIT (International Transaction) for necessary amendment to the application. Once all the formalities are completed and the APA application is found in order, the DGIT (International Transaction) will assign the APA application to a special team constituted for the purpose in order to further scrutinize the application and the international tax obligations arising for domestic assessee as per the Income Tax Act. The APA team may accept or reject it depending upon the merit of the application. An APA application will be accepted by the APA team:

a. if the application is complete in all respects, furnishing details of required information,
b. the Double Taxation Avoidance Agreement (DTAA) prevails between the two countries,
c. or any other tax treaty in the nature of ' Mutual Agreement Procedure' (MAP) prevails,
d. the corresponding APA prevails in the counter country,

In case the DGIT (International Transaction) is satisfied with the report furnished by the APA team it will be sent to the Central Board of Direct Taxes (CBDT) for its final assent in case of unilateral APAs. In case of bilateral and multilateral APAs the DGIT (International Transaction) himself prepare the draft known as Indian Position paper. The Income Tax Rules, 1962 have prescribed the mechanism of examination and analysis of an APA application which have not been considered in the present article.

Of course, the entire mechanism of international tax agreement under APA between the related parties is modeled in the line of Article 9 of OECD model on Associated Enterprises. It is the international taxation matter which is guided by the international best practices.

Documentation needed: Any company seeking APA submits its detailed information about costs and margins to the tax authorities. Based on the information submitted and a comparison with what a similar arms length transaction (ALT) would cost, tax authorities give their opinion. The major contents of the information to be disclosed are indicated below:

1. Details of proposed covered transactions
2. Disclosure of other controlled transactions
3. Result of the pre-filing discussions between the taxpayer and the CBDT
4. Transfer pricing background
5. Financial statements, for past years and financial projections
6. Industry analysis including the core activities undertaken by the tax payer in the relevant industry
7. Description of the business structure and the main business arrangements within the group of companies to which the taxpayer belongs
8. Functional analysis in detail including the functions performed by the taxpayer in relation to the controlled transactions, assets used and related business risks
9. Relevant economic analysis including impact of the proposed transfer pricing mechanism.

The implications of the information contents stated above have been critically analyzed in the concluding part of this article.

Assumptions Underlying an APA: An APA application is processed under certain assumptions by the DGIT (International Transaction) which are referred to as critical assumptions as they are critical to the agreement of advance price entered into by the tax payer. Different companies offering different types of products and services have established different bases of assumptions depending upon their nature of business. In addition, these assumptions include the conditions prevailing in the economy and industry as a whole. The critical assumptions are valid for a maximum period of 5 years and shall remain intact for this period. Nevertheless, in case of change in a critical assumption, the APA may be revised.

Practical application of APA: Before the introduction of APA there was uncertainty among the tax payers about transfer prices for their related party transactions. To scratch the chances of litigation and trouble at a later stage the use of APA is a welcome step. This may be illustrated with the help of a real life situation. Suppose a company resident in France manufacturers watches and sells these watches to a company resident in India at a rate of Rs. 5,000 per watch. Both the French Co. and the Indian company are associated enterprise that is related parties. In a particular year the French company makes a profit of Rs. 50 crores and the Indian company Rs.10 crores. Is the price of watch transferred from French company to Indian company the correct price is a question debated by the Assessing Officer both in France as well as in India. The French tax authority may insist on having the price fixed at more than Rs. 5,000 and thereby fetch more profit for the French company and thus yielding more tax revenue for the French government. The Indian tax authority on the other would say that the actual price should be lower than Rs. 5,000 yielding more profit for Indian company and thereby more tax revenue for the Indian tax administration. This is a case of international taxation dispute relating to pricing of a product shown in a foreign invoice.

In such a situation a principle of ALP is used to decide what price should be charged by the related parties. Although several alternative methods have been prescribed yet there is no scientific method to calculate the exact price of a product involved in multinational transactions.

International Best Practice: In case the tax administration in both India and France come to a compromise formula by negotiation, there is a possibility that an income of Rs. 100

[2]Tax Payer's Information Series-43 issued by the Income Tax Department of India

may be taxed at Rs.60 in France and Rs. 40 in India, lending the total taxable income at more than Rs. 100. This is because of the involvement of an element of double taxation between the two sovereign tax authorities in their respective countries which is an area of concern. The two companies would then be involved in litigation which is time consuming and money consuming. As a result the alternative steps have been suggested which are regarded as the international best practice:

a) The two sovereigns enter into a Double Taxation Avoidance Agreement (DTAA) in order to resolve the dispute under a mechanism called mutual agreement procedure (MAP). Thus, the exact Rs. 100 will be subjected to levy of tax on an agreed proportion between the two taxation authorities.
b) Some countries have often entered into an APA generally a bilateral APA. Under APA the two competent authorities will negotiate in advance to determine the ALP of the future international transaction. India has introduced APA for the first time in order to ease international taxation dispute.
c) The third option is to have a unilateral APA i.e., to have an agreement only with one taxing authority to have tax certainty in that country.
d) The next option is to determine the ALP between the related parties. A single mode of ALP is not available. As a result the tax authorities agree to accept the price charged by the companies unrelated to each other. That price would be presumed to be the price for transfer of items between the related parties.

However, this method is not free from criticism because a single assessing officer in one country may not have available data with it or may not have the competence to go into the intricacies of the subject matter. As a result Section 92 to 94 of the Income Tax Act has prescribed for the creation of an APA team to determine the relevant ALP. This practice is the international best practice.

Having considered the procedural aspects of an APA, we may now proceed to analyze the impact of APA on transfer pricing in accordance with the second objective of our research enquiry.

Advance pricing agreement (APA) and its bearing on transfer pricing

APA is an ahead of time agreement between a taxpayer and a taxing authority on an appropriate Transfer Pricing Methodology (TPM) for some set of transactions at issue over a fixed period of time. Transfer Pricing agreements between the associated enterprises in respect of offshore transactions attract tax liabilities of the enterprises in both the sovereigns. In other words, it is an arrangement between a taxpayer and the tax authorities that sets out in advance the method of determining the transfer pricing for transactions between a subsidiary and a parent. After entering into an agreement, the company is absolved from questions from tax authorities, future litigation and also lot of compliance procedures for five years. OECD, Paris issues some standing guidelines with regard to transfer pricing for general adoption by the multinationals entering into offshore transactions. It is believed that once the APA is designed within the frame of these guidelines the chances of tax related disputes aberrations in the terms of agreement can be avoided for smooth conduct of business.

To bring about certainty and uniformity with regard to determination of ALP of an international transaction, the Finance Act, 2012 had inserted Sections 92CC and 92CD in the Income Tax Act, 1961 introducing the provisions of Advance Pricing Agreement (APA). Technically, APA as an agreement entered into, with the approval of Central Government, between the CBDT and any person, which determines, in advance, the ALP or specifies the manner of the determination of ALP (or both), in relation to an international transaction. Section 92C provides for adjustment in the transfer price (TP) of an international transaction with an associated enterprise if the TP is not equal to the ALP. As a result, a large number of such transactions are being subjected to adjustment giving rise to considerable dispute. The CBDT has been empowered by inserting Section 92CB by the Finance Act 2009 to formulate Safe Harbour Rules (SHR) that is to provide the circumstances in which the income tax authorities shall accept the TP declared by the assessee.

Once an APA has been entered into with respect to an international transaction, the ALP with respect to that transaction, for that period specified in the APA, will be determined only in accordance with the APA. This term of APA can be a maximum of five years. APAs can have significant bearing on Transfer Pricing because an APA is binding on the assessee who entered into an APA in relation to the covered transactions and on the Commissioner of Income Tax and other income tax authorities subordinate to him in respect of that assessee and that transaction. If the assessee complies with the terms and conditions of the APA the tax administration will not contest the ALP or the application of the TPM to the covered transactions in the APA in the case of the assessee for the years to which the APA specifically relates.

However, the APA shall not be binding under the following circumstances:

1. If there is a change in law or facts having bearing on the agreements so entered;
2. The agreement has been entered by the assessee by fraud or misrepresentation of facts;
3. There is any change in any of the critical assumptions;

THE SUCCESS OF APA WOULD DEPEND TO A LARGE EXTENT UPON THE INFORMATION DISCLOSED BY THE DOMESTIC TAX RESIDENT AS WELL AS SOVEREIGN TAX RESIDENT IN RESPECT OF THE SAME TRANSACTION

4. There is any failure on the part of the assessee to meet conditions subject to which the agreement has been entered into;
5. The agreement is cancelled under Rule 10R[3].

During the period of negotiation and acceptance of the APA application the Assessing Officer need not wait for completion of the same and instead may undertake regular assessment as usual. In addition transfer price audit has to be done by the transfer pricing officer for these transactions. The assessee, on the other hand, is required to maintain all the records and submit the documents and records whenever required by the assessing and auditing officers.

The multinationals and tax authorities were at loggerheads over transfer pricing issue like Shell, Nokia and Vodafone, which received tax notice in March 2012. The US Competent authority Michael Danilack has in a recent 2013 Transfer Pricing Conference made it clear that the USA will not accept an Indian APA. In this context, the new rule allowing multinationals to ascertain their potential tax liability in advance has turned out to be a great success on 20 May, 2013 as about 150 companies lined up for advance pricing agreements in the first year itself (2013) to avoid dispute with income tax authorities later.

Transfer pricing has become the single largest source of tax dispute in India, with annual adjustments across the country easily scaling numbers in excess of 12 billion dollar as in April 2013. With several intricate issues of uncertainties before the taxation authorities over the complex transactions undertaken by MNCs, APA appear to be the best possible solution for obtaining surety and certainty in transfer pricing matters and also in respect of revenue collection by the fiscal authorities.

Findings and conclusion

Having considered all the procedures and steps involved in APA, we have realized that many international transactions may be covered under APA in a given financial year. In this case say out of 50 international transactions only 5 are brought under APA and approved by the APA team in that financial year, the rest 45 transactions will not be affected and will be assessed in the regular manner and only the 5 covered transactions will be assessed as per the international taxation norms duly approved by the assessing authority in the host country. Internal revenue authorities prefer bilateral APA because it encourages an assured revenue flow to the host country; and avoid future litigation on international taxation disputes.

During our research endeavour it was found that one professional[4] has categorized a kind of synthetic bilateral APA which says that an agreement is regarded synthetic bilateral when no bilateral APA is possible or there is no tax treaty prevailing between the associated enterprises. Further even when there is a tax treaty in force, but one of the tax authorities in the respective sovereigns do not have the experience or exposure to APA system, it is regarded as a synthetic bilateral APA. However, such categorization has not been provided in the proposed tax legislation.

It was also revealed during our research enquiry that APAs give tax payers certainty about their receipt of income from transfer prices for their related party transactions and vice versa. This mechanism ensures transparency of transactions along with the certainty of revenue collection which is intimated in advance to the income tax assessing authorities, in addition to reducing the risk of potential double taxation. This technique is a kind of declaration of an anticipated income likely to accrue in an off-shore transaction and preparing to bear its corresponding tax burden. The company seeking APAs submits its detailed information about costs and margins to the tax authorities. Based on the information

[3]Tax Payer's Information Series-43 issued by the Income Tax Department of India

[4]Hemall Deepak Thakkar (2011)

submitted, a comparison with what a similar Arm's Length Transaction (ALT) would cost and considering the critical assumptions, tax authorities give their opinion. However, the safeguards needed in this regard are:

- The assumptions in the APAs should be broad based to allow for business peculiarities.
- Measures should be taken to avoid frequent changes in the provisions as the applicants of APA will act on the basis of it for the number of years it is entered into.
- The tax authorities should provide specific time limit for completion of each stage.

Our research findings also reveal that related party transactions among the associated enterprises require detailed analytical disclosure of information by the assessee undertaking offshore transactions to the domestic tax authorities. It is because the domestic tax authorities may not have a direct and easy access to the transactions entered into by the two associated enterprises. On the other hand, the domestic authorities cannot, in ordinary course of assessment, seek information about an associated enterprise located in a sovereign and undertaking offshore transaction over the control of a sovereign tax authority in a foreign country. In this situation, the tax authorities in two sovereigns while levying taxes on their respective citizens would be interested to know the tax liability of a domestic associated enterprise with another associated enterprise in another sovereign. The tax authorities in that sovereign would also try to ascertain the tax liability arising from the same transaction in that sovereign for that assessee. Hence, to mitigate the information gap between two tax authorities in two separate sovereigns, sharing of information relating to offshore transactions and tax liability thereon has to be shared voluntarily under a mechanism called APA. This kind of APA entered into between the associated enterprises manifesting the agreed price of the transaction quoted in the international invoice between the two enterprises would be equally accepted by the assessing authorities under the tax treaty of both the sovereigns. There is another ramification of this transaction that the assessing authority in the domestic sovereign should not be accused subsequently of indulging in under recovery of tax revenues on account of either incomplete invoicing or non-transparent invoice or undisclosed pricing mechanism. The concept of APA came to play a complimentary role in reducing the information gap and the pricing gap in the context of international pricing. The assessing authority is scared to take that risk of assessment of revenue income arising from offshore transactions. APA, therefore, is not only a dispute resolution device between the two independent tax authorities in two separate sovereigns, rather it is also a device to lessen the risk of assessing the taxable income based on the absence of full information. The success of APA would depend to a large extent upon the information disclosure made by the domestic tax resident as well as sovereign tax resident in respect of same transaction. Information disclosure in a recognized document is not only essential but also a sufficient condition to disclose the pricing adopted in the invoice and helping the assessing authority to estimate the tax liability. However, without the assurance from the tax authorities regarding maintaining of confidentiality of the information provided, the companies will not come forward to seek APA.

If tax authorities do not assure the confidentiality of the information provided, companies will not come forward to seek APA

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CORPORATE GOVERNANCE AND THE NEW COMPANIES ACT

The Companies Act of 2013 turns spotlight of the Board of Director and the Board has been given greater responsibility and made more accountable

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THE Companies Act, 2013 makes significant departures with regard to appointment of Directors and the constitution of the Board. Great Britain started revamping the company law in the light of the Cadbury Committee Report. The Cadbury Code has to be observed by all listed companies in England. Much of it has been adapted in the Indian Companies Act of 1956. Much water has flown down the Yamuna in the past quarter century. We have been observing and following what is happening in the corporate field across the globe. China is transforming the company's landscape. Companies that got too comfortable with the old system are now going to have to change. Ben Heineman in his latest book *High Performance with High Integrity* observes that High Performance and High Integrity are foundational corporate goals. The fusion of the two objectives is essential to avoid catastrophic risk that injures the company and its stake holders. The Act of 2013 turns spotlight of the Board of Director. The Board is given greater responsibility and is made more accountable.

Appointment and qualifications of Directors

Under the Act of 2013, every company shall have at least one Director Resident of India for a minimum of 6 months. The maximum limit of Directors in the company has been increased to 15 from the present to 12. A person cannot become a Director in more than 20 companies. At present, the limit is 15. Out of this 20, he cannot be a Director in more than 10 public companies. The Director will have to vacate office if he remains absent from all the meetings of the Board of Directors held during 12 months. The manner, terms and conditions of appointment arel all be prescribed. A listed company should have one Director elected by small shareholders. A small shareholder will hold shares of nominal value of not more than Rs.20,000/-. Grounds for disqualification of Directors are also laid down. Resignation of Directors will take effect from the date on which Notice of Resignation is received by the company. The Resigning Director must file his resignation letter in the Registrar of Companies within 30 days giving reasons for resignation.

THE BOARD OF DIRECTORS REPRESENTS THE FULCRUM ON WHICH THE ACTIVITIES OF THE COMPANY ROTATE. THE ACT OF 2013 CERTAINLY HOPES TO IMPROVE NORMS FOR CORPORATE GOVERNANCE

The Board of Directors should hold a minimum of 4 meetings every year with a gap of 120 days or less. Participation in the Board Meeting through

Video Conferencing is recognized. At least 7 days Notice will be required for Board Meetings. Listed companies must have Audit Committees comprising of a minimum of 3 Directors. Chair person and majority of Directors should be able to read and understand the financial statements. They should also have a vigil mechanism.

It is mandatory for listed companies to have a Nomination and Remuneration Committee. There will also be a Stakeholders Relationship Committee. This will come into operation when the total number of shareholders, deposit holders and other security holders exceeded 1000 at any time.

The Act extends the restriction on the power of the Board to exercise specified powers with the approval of the General Meeting to private companies. The law also prescribes quantitative tests for validating sale, lease or disposal of one or more undertakings

The Company shall not make any loan or give guarantee or provide security to Directors or persons in whom the Directors are interested. This bar will not apply to the Managing Director governed by a service contract. The bar will however apply to private companies. Inter corporate loans, guarantees and security and investment are also regulated. Related party transactions are liberalized and the requirement of obtaining Central Government approval is dispensed with.

A Chair person can be a Managing Director or Chief Executive Officer at the same time, if the Articles of the Company permit the same or if the company does not have multiple businesses. The Chief Financial Officer is liable for penalty or prosecution for non compliance with provisions like maintenance of books of accounts, filing of annual accounts, disclosure of financial information etc., Managerial remuneration is regulated under Schedule V. Shareholder approval is required for a company to enter into an arrangement by which a Director or a person connected with him seeks to acquire assets for consideration other than cash, from the company. Similar approval is also required if the company seeks to acquire assets from such a Director or connected person.

A Director or a Key Management Personnel shall not enter into insider trading as defined in the new Act.

Duties of Directors

The Act of 1956 did not codify the General principles governing duties of Directors. Section 166 of the Act of 2013 codifies such duties. It is now laid down that a Director shall act in accordance with the Articles of the company. He should act in good faith in order to promote the objects of the company for the benefit of its members as a whole and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment. He should act with due care and caution and diligence and exercise independent judgment. He shall not involve in a situation in which he may have a Direct or Indirect interests that may conflict with the interest of the company. He shall not try to achieve undue gain or advantage either to himself or to his relatives or associates. If he is found guilty of making any such undue gain, he shall be liable to pay an amount equal to that gain to the company.

Independent Directors

For the first time, the concept of Independent Directors is recognized in the law. Section 149 lays down that every restrict company shall have at least 1/3 of the total number of Directors as independent Directors. Such an Independent Director will not be entitled to stock options. Nor will he be entitled to any remuneration other than sitting fee, reimbursement of expenses for participation in the Board and profit related commission as may be approved by the Members. The law also takes into account the concept of Nominee Directors [Section 161.] Nominee Directors are representing the financial and other institutions which had helped the company. The present practice of having such independent and nominee Directors does not give sufficient protection to them. The new law in Section 149 (12) provides that notwithstanding anything contained in the Act, an Independent Director or a Non-executive Director not being promoter or key managerial personnel, shall be held liable only in respect of such acts of omission or commission by a company which had occurred with his knowledge, consent or connivance or where he has not acted diligently. There was no such limitation of liability of non Executive Directors under the Act of 1956. Section 150 provides the manner of selection of Independent Directors and also requires maintenance of data bank of independent directors.

Gender equality

India is home to thousands of women with assets worth millions and billions of rupees. We also have a high degree of well educated women in our midst. Still, women Directors on the Board of Directors are few and far between. Personalities of the type of Indira Noyi of Pepsi Cola fame, Kiran Mazumbar of Biocon and Kochar of ICICI can be counted on our fingers. An attempt has been made to rectify the imbalance. The new law lays down that prescribed listed companies should have in the Board at least one woman Director.

The Board of Directors represents the fulcrum on which the activities of the company rotate. The Act of 2013 certainly hopes to improve norms for corporate governance. MA

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The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

55th National Cost Convention-2014

Venue : Hotel Mayfair Lagoon, Bhubaneswar(Odisha)

Theme :

Nation Building through Cost Competitiveness and Responsible Governance

on 17th-18th January, 2014 at Bhubaneswar (Odisha)

Behind Every Successful Business Decision, There is Always a CMA

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

55th National Cost Convention - 2014

Theme : Nation Building through Cost Competitiveness and Responsible Governance

Dear Sir/Madam,

The term competitiveness is interpreted in many ways aimed at the sustainability and growth of any business entity, be it in technology, quality, business process, market share or customer orientation. Cost competitiveness subsumes all of those as it examines the long-term growth and sustainability of the business model. It takes into account the business, economic, legal, governance and ethical environment of the business.

The drive to emerge as a winner by any means has entangled many a corporate into scams which have been result of unbridled greed for short term wealth generation, sacrificing the governance and control aspects at its alter. This has resulted in Government, Regulators and Professional Institutes stepping in to stem the tide and introduce tight legislation and stricter control, which add to compliance costs, but are essential for protecting the public interest.

As Cost and Management Accountants it is vital for the profession, to build the cost competitiveness on a solid foundation built on responsible governance as envisaged in the Companies Act, 2013. Although we CMAs are "behind every successful business decision", it is imperative for us to have a 360 degree vision to ensure that the governance and ethical best practices are kept sight of, while inculcating cost competitiveness. The 55th National Cost Convention -2014, delves into these aspects, which have become key pillars of capacity building for CMA professionals.

The various sessions have been designed with those aspects in view, starting with the Companies Act, 2013, dealing mainly with radical changes in legal, governance and ethical environment, the focus on MSMEs which deals with the current reality of their humungous contribution to the economy and employment and services sector which accounts for a significant proportion of the country's GDP, the internal audit taking the hue of operational and management audit, tough provisions for auditors, and a new orientation to the Cost Audit, effective tax and Government expenditure monitoring mechanism as an enabler of investment and growth.

Each convention brings an element of fresh thinking and ideas for taking the profession forward in the face of new opportunities and threats. This convention is no different.

Looking forward for your co-operation and active participation & wishing you a very prosperous and eventful New Year 2014.

Thanking You

With best regards

CMA Dr. A. S. Durga Prasad
Chairman
Convention Committee

CMA Chitra Agarwal
Co-Chairperson
Convention Committee

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

Programme Schedule

DAY 1 : 17th January,2014 (Friday)

08:30 a.m. to 09:30 a.m.	**Registration**
09:30 a.m. to 11:00 a.m	**Inaugural Session**
11:00 a.m. to 11:30 a.m.	**Tea Break**
11:30 a.m. to 01:00 pm	**Plenary Session** : Cost Competitiveness for Inclusive Growth (CEO Forum)
01:00 p.m. to 02:00 p.m.	**Lunch Break**
02:00 p.m. to 03:30 p.m.	**Technical Session I** : Transition from Regulatory to Affirmative Corporate Action
03:30 p.m. to 04:00 p.m.	**Tea Break**
04:00 p.m. to 05:30 p.m.	**Technical Session II** : Professional Perspective – Response to the Emerging Challenges and Opportunities
7:30 p.m. to 10:00 p.m.	Cultural Programme followed by Convention Dinner

DAY 2 : 18th January,2014 (Saturday)

09:30a.m. to 11:00 a.m.	**Technical Session III** : Energizing MSMEs for Sustained Economic Development
11:00 a.m. to 11:30 a.m.	**Tea Break**
11:30 a.m. to 01:00 p.m.	**Technical Session IV** : Government Perspective – Tax & Expenditure Management
01:00 p.m. to 02:00 p.m.	**Lunch Break**
02:00 p.m. to 03:30 p.m.	**Technical Session V** : Service Sector as a Key Enabler for Sustainable Growth
03:30 p.m. to 04:30 p.m.	**Valedictory Session** : CMA Growth Perspective (CFO Forum)

Venue : Hotel Mayfair Lagoon, Jaydev Vihar, Bhubaneswar-751013 (Odisha)
Phone : +91 674 666 0101

Contact Details

Headquarters : The Institute of Cost Accountants of India
CMA Bhawan,12, Sudder Street, Kolkata- 700016
Phone : +91 33-22521031-34-35, Fax No. +91 33-22527993
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Mobile : +91 93133 75254

Eastern India Regional Council : CMA Bhawan 84, Harish Mukherjee Road, Kolkata-700025
Phone : +91 33-24553418/5957, Fax No. +91 33-24557920
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Mobile : +91 97789 40481

CEP Credit : 6 Hours

The Institute of Cost Accountants of India

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55th National Cost Convention - 2014

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CMA Mahesh Shah	Past President
CMA Pravakar Mohanty	Past President
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CMA Pallab Bhattacharya	Vice Chairman, EIRC
CMA Shiba Prasad Padhi	Treasurer, EIRC
CMA Srikanta Sahoo	Member, EIRC
CMA Shyamal Kumar Bhattacharjee	Member, EIRC
CMA Saswata Dasgupta	Member, EIRC
CMA Ashok Kumar Mukhopadhyay	Member, EIRC
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CMA Sanjay Bhargave	Council Member

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CMA Rakesh Singh	IPP & Council Member
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CMA Dr. A. Bhattacharyya	Adviser, Advance Studies
CMA S.A. Murali Prasad	Practising Cost Accountant
CMA Dr. Shailesh Gandhi	Professor, IIM, Ahmedabad
CMA A.K. Awasthi	Former Dy.CAG of India
CMA Dr. P.V.S. Jagan Mohan Rao	Council Member
CMA Sanjay Gupta	Council Member
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CMA Aruna Vilas Soman	Council Member

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CMA Subimal Basak	Chairman, Kharagpur Chapter
CMA Sanjay Kumar Singh	Chairman, Ranchi Chapter
CMA B. Pani	Chairman, Sambalpur Chapter
CMA N.C. Kar	Chairman, South OdishaChapter
CMA D.K. Das	Past Chairman, CBC of ICAI
CMA K.K. Sastri	Past Chairman, CBC of ICAI
CMA N. Mohapatra	Past Chairman, CBC of ICAI
CMA N. Mishra	Past Chairman, CBC of ICAI

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

55th National Cost Convention - 2014

COMMITTEES – NATIONAL COST CONVENTION- 2014

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MEMBERS:

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CMA P.V. Bhattad	Council Member
CMA Bibekananda Mukhopadhyay	Secretary EIRC
CMA Shiba Prasad Padhi	Treasurer, EIRC
CMA Shyamal Kumar Bhattacharjee	Member, EIRC
CMA Manas Ranjan Lenka	Vice Chairman CBC, ICAI

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CMA Manas Kumar Thakur	Council Member
CMA T.C.A. Srinivasa Prasad	Council Member
CMA Sanjay Bhargave	Council Member
CMA D.L.S. Sreshti	Council Member
CMA P.V. Bhattad	Council Member
CMA Neeraj D. Joshi	Vice Chairman, WIRC
CMA Padmanabhan H	Vice Chairman, SIRC
CMA Saurabh Srivastava	Vice Chairman, NIRC
CMA Srikanta Sahoo	Member, EIRC
CMA Subrata Kumar Swain	Secretary, CBC of ICAI
CMA Damodar Mishra	Treasurer, CBC of ICAI

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CHAIRMAN

CMA Amit Anand Apte	Council Member

MEMBERS :

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CMA Dr. Sanjiban Bandyopadhyaya	Council Member
CMA Manas Kumar Thakur	Council Member
CMA Bibhu P. Mahapatra	Past Chairman, EIRC
CMA C.R. Chattopadhyay	Past Chairman, EIRC
CMA Niranjan Swain	Past Chairman, EIRC
CMA Kali Kinkar Sarkar	Past Chairman, EIRC
CMA Debasish Saha	Past Chairman, EIRC
CMA Ajay Deep Wadhwa	Past Chairman, EIRC
CMA Shyamal Kumar Bhattacharjee	Member, EIRC

DELEGATE COMMITTEE

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CMA Amit Anand Apte	Council Member
CMA Sanjay Gupta	Council Member
CMA Ashok B. Nawal	Treasurer, WIRC
CMA S. Ramachandran	Treasurer, SIRC
CMA S.K. Bhatt	Treasurer, NIRC
CMA Saswata Dasgupta	Member, EIRC
CMA U.B. Mohapatra	Past Chairman, CBC of ICAI
CMA P.K. Sahoo	Past Chairman, CBC of ICAI
CMA G.B. Swain	Past Chairman, CBC of ICAI
CMA S. Mohapatra	Past Chairman, CBC of ICAI
CMA Niranjan Sahoo	Past Chairman, CBC of ICAI
CMA A.K. Swain	Member, CBC of ICAI
CMA S.P. Kar	Member, CBC of ICAI
CMA Uttam Nayak	Member CBC of ICAI
CMA S.B. Samal	Member, CBC of ICAI

SOUVENIR COMMITTEE

CHAIRMAN

CMA Dr. Sanjiban Bandyopadhyaya	Council Member

MEMBERS :

CMA M. Gopalakrishnan	PP & Council Member
CMA Aruna Vilas Soman	Council Member
CMA D.L.S. Sreshti	Council Member
CMA N.P. Mukherjee	Past Chairman, EIRC
CMA Dr. Avijit Sen	Past Chairman, EIRC
CMA Bidhan K. Mitra	Past Chairman, EIRC
CMA Dipak Sen	Past Chairman, EIRC
CMA N. Sinha Chaudhuri	Past Chairman, EIRC
CMA P.K. Mishra	Past Chairman, EIRC
CMA B. Majumder	Past Chairman, EIRC
CMA Asim Kr. Mukhopadhyay	Past Chairman, EIRC
CMA K.K. Gangopadhyay	Past Chairman, EIRC
CMA Avijit Goswami	Past Chairman, EIRC
CMA S.S. Sonthalia	Past Chairman, EIRC
CMA B. Dasgupta	Past Chairman, EIRC

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

55th National Cost Convention - 2014

DELEGATE FOR CONVENTION

Dear Sir/Madam,

We invite you/ your company to register / sponsor delegates for the 55th National Cost Convention 2014 to be held on 17th and 18th January, 2014 at Hotel Mayfair Lagoon, Bhubaneswar, Odisha in association with the Eastern India Regional Council and Cuttack-Bhubaneswar Chapter of Cost Accountants.

Participants

Corporate Directors, CFOs, Cost and Management Accountants and other Senior Management Executives in the Corporate Sector, Practicing Professionals in Secretarial, Financial, Legal and Management Discipline, Researchers, and Academicians who would benefit from participation in the Convention.

DELEGATE FEE

Particulars	Fees(₹)
Corporate Delegates	5,500
Members	4,500
Cost Accountant-in-Practice	3,500
Student	2,500
Spouse	2,500
Foreign Delegates	US $ 200

The entire fee is payable in advance and is not refundable once the nomination is received. The Delegate Registration Form duly filled in along with delegate fees may please be sent to:

The Chairman,
Delegate Committee,
The Institute of Cost Accountant of India
3, Institutional Area, Lodhi Road,New Delhi-110003

Thanking You,

Yours Sincerely,

CMA Manas Kumar Thakur
Chairman
Delegate Committee

PAYMENT	
The Cheque / Demand Draft to be drawn in favour of "ICAI-55th National Cost Convention 2014" payable at New Delhi. Details for NEFT Payment : Punjab National Bank, Lodhi Road, New Delhi-110003	
Current A/C No.: 0128000100629511	**IFS Code:** PUNB0012800
PAN No. AAATT9744L	**Service Tax No.** AAATT9744LSD005

CEP Credit : 6 Hours

SPONSORSHIP DETAILS

PLATINUM SPONSOR (₹ 10,00,000)
Delegate fee (non-residential) exemption for 10 delegates Display on the Convention Backdrop as Platinum Sponsor and all other prominent places Sponsor Logo in badges and all Convention Material
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Note: One special full page (Coloured) advertisement in the Souvenir for all above mentioned categories.
OTHER SPONSORSHIP (₹ 50,000)
Banner/ Stall/ Publicity Material on request

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

55th National Cost Convention - 2014

ADVERTISEMENT TARIFF FOR SOUVENIR

Dear Sir/Madam,

The Institute of Cost Accountants of India, established under an Act of Parliament is the premier professional body imparting Education, training and propagating Cost and Management Accountancy in India and abroad. There are over 64,000 members in Service and Practice. The members in service with Government, Public and Private Sectors, are occupying high positions like Chairman & Managing Directors, CEOs, CFOs and so on.

We are proud to inform you that the 55th National Cost Convention-2014 is being organized by the Institute of Cost Accountants of India in association with the Eastern India Regional Council and Cuttack-Bhubaneswar Chapter of Cost Accountants.

The theme of the Convention is **"NATION BUILDING THROUGH COST COMPETITIVENESS AND RESPONSIBLE GOVERNANCE".** The convention is scheduled for 17th and 18th January, 2014 at Hotel Mayfair Lagoon, Bhubaneshwar (Odisha). This mega Convention will be attended by a large number of delegates from India and abroad. On the occasion of this Convention, the committee has decided to bring out a Souvenir which will be released in the Valedictory Session. The Convention of this nature can be success only with your support in the form of Advertisements.

We request you to participate in this mega convention by releasing an advertisement in the souvenir. A souvenir Advertisement form is enclosed.

Looking forward to your kind co-operation and active participation.

Thanking you,

Yours Sincerely

CMA Dr. Sanjiban Bandyopadhyaya
Chairman
Souvenir Committee

Advertisement Space	Size	Tariff (₹)
Back Cover	18 cm x 24 cm	75,000
Front Inside Cover	18 cm x 24 cm	50,000
Back Inside Cover	18 cm x 24 cm	50,000
Center Spread (Colour)	18 cm x 24 cm	25,000
Special Full Page (Colour)	18 cm x 24 cm	20,000
Ordinary Full Page	18 cm x 24 cm	15,000
Ordinary Half Page	18 cm x 24 cm	10,000

For enquiry and further details, please contact at

- **The Institute of Cost Accountants of India,** CMA Bhawan 12, Sudder Street, Kolkata-700016
  Phone : +91 33-22521031-34-35, Fax No. +91 33-22527993, Mobile : +91 90516 15252
- **Delhi Office,** CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi-110003
  Phone : +91 11-24622156-58, 24666100, Fax No. +91 11-24666 166, Mobile : +91 93133 75254
- **Eastern India Regional Council :** CMA Bhawan 84, Harish Mukherjee Road, Kolkata-700025
  Phone : +91 33-24553418/5957, Fax No. +91 33-24557920, Mobile : +91 98364 46669
- **Cuttack -Bhubaneswar Chapter :** A-122/2, Nilakantha Nagar, Nayapalli, Bhubaneswar -751012
  Phone : +91 674-2396622/2395622, Fax No. +91 674-23956622, Mobile : +91 97789 40481

Email: ncc2014@icmai.in • website: www.icmai.in

Eastern India Regional Council

THE EIRC had participated in the 2nd ICC CFO Summit 2013 organised by The Indian Chamber of Commerce on 21st September 2013 at Hotel Hindustan. The summit was focused on the key issues pertaining to changing roles of CFOs in an organisation along with transforming global economic scenario. It has also focused on roles of CFO in mitigating core financial & regulatory uncertainties and converting them to corporate returns. The theme of the summit was 'Transforming Regulatory Uncertainties' to Corporate Returns. There were to two sessions. Session I was on 'The Detour from Surviving Risks to Experiencing', 'Thriving Opportunities' and Session II includes 'A Glimpse into the Future Achieving Sustainable Business Performance via Innovation & Strategic Leadership'. Dr C.S. Mohapatra, Advisor, FSDC, Department of Economic Affairs, Ministry of Finance, Government of India was the Chief Guest and Mr Ambarish Dasgupta, Partner & Head of Management Consulting, KPMG in India was the Special Guest of Honour. The Inaugural session was chaired by CMA Chitra Agarwal, Chairperson, EIRC.

On 25th & 26th October, 2013 EIRC had organised campus placement for June 2013 Final pass-outs. Mecon Ltd, Vedanata, TCS, Goldman Sachs and Genpact had come for recruitment.

The region had also organised a programme on 26th October 2013 on 'Excise Return & Excise Audit' at EIRC Auditorium. Shri C.M Chandolia Commissioner, Central Excise, GOI was the Chief Guest. Shri Debashish Ghoshal, Superintendent CCP, delivered on Excise Return and CMA Somnath Mukherjee delivered on Excise Audit.

On 11th Nov 2013 EIRC had inaugurated the 173rd Oral Coaching classes for foundation, intermediate & final. The guests present deliberated on different issues of CMA profession and motivated the students.

EIRC had organised career counselling programmes during the month. On 12th November, 2013 the said programme was organised at Khariberia Vivekananda Vidyapith and Badamtala High School. A team from EIRC comprising of CMA P.K. Sikdar and officials of EIRC visited the schools and delivered on the prospects of CMA course and the opportunities opened for a qualified CMA.

Cuttack-Bhubaneswar Chapter of Cost Accountants

THE chapter had organized a faculty/teaching members meeting on 27th October, 2013 at its conference hall which was participated by the managing committee members, guest faculties/teaching members of the chapter. CMA B.K. Pattnaik, Chairman of the chapter welcomed to all the dignitaries present in the meeting. Interaction with faculties regarding various achievements of the chapter relating to coaching activities took place. All the dignitaries present in the meeting shared their valuable and constructive suggestions for further development of oral coaching imparted by the chapter.

A workshop on Companies Act, 2013 was organized on 3rd November 2013. To update the members of this profession and other professionals in the newly promulgated Companies, Act, 2013 this Chapter had organized this programme. The following dignitaries addressed the gatherings on the occasion:

Shri B. Mishra, Registrar of Companies, Odisha inaugurated the Workshop and addressed the gatherings as Chief Guest on the occasion. Shri Saroj Kumar Ray, Practicing Company Secretary deliberated the gatherings in the pre-lunch session on the topic: Company Incorporation, Board of Directors & Company Meeting. Shri Kaushik Mukherjee, Company Secretary and General Manager, Phillips Cabon Black Ltd., Kolkata talked on Independent Director, Accounts & Audit and Key Managerial Person. Shri K N Ravindra, Company Secretary, NALCO Ltd. deliberated on Corporate Governance and CSR Activity. Shri Mrityunjaya Acharjee, Associate Vice President (Internal Audit & Taxation), Balmer and Lawrie, Kolkata deliberated on the Merger, Amalgamation, Class Action and Scope of Cost Accountants under Companies

Act, 2013. About 132 numbers of participants from various corporate sectors, private sectors, invitees, and practicing members along with all the members of the managing committee participated the Workshop and make it a grand success.

The 51st session of oral coaching was inaugurated on 4th November, 2013 CMA Suresh Chandra Mohanty, president of the Institute inaugurated the function as Chief Guest and CMA Nilamani Mohapatra, one of the founder members & past chairman of the chapter and CMA Shiba Prasad Padhi, Treasurer, EIRC were also the Guest of Honour on the occasion. They encouraged and advised the students for completion of the course as early as possible to grab the opportunity in the present market scenario. The hard labour and patience is only the key point for success in this profession told by all the guests on the occasion. All the dignitaries encouraged the students for in-depth study. More than 200 students along with their guardians/parents were present on the occasion.

Northern India Regional Council

Allahabad Chapter of Cost Accountants

THE chapter had organized a seminar on 'The Companies Act 2013 – Key issues' on 25th October 2013 in the conference hall. CMA Indrasen Singh, Past Chairman of Chapter and Company Secretary of Bharat Pumps and Compressors Ltd. Allahabad and CS I A Khan, Practicing Company Secretary were keynote speakers in the seminar. The Seminar was inaugurated by CMA S.M. Anwar Hussan, Chairman of the chapter and Dr Kiran Kumar, Professor of Allahabad University. CMA Subhasis Pal , Secretary of the Allahabad chapter welcomed the guest and members and introduced the topic and highlighted the theme of the topic.

Mr. Indrasen Singh Speaking on the topic covered main features of New Companies Act 2013 and highlighted the changes in the main areas such as New definitions introduced in the Act, Incorporation of company including new provision of One person private limited company, provisions relating to share capital and debenture, changes in provisions relating to management and administration including new provision of KMP and composition of the Board, Accounts and Audit, CSR. He said that NCLT replaces the High Court, CLB. The same shall consists of Judicial and Technical members, as Central Government may deem necessary, to exercise and discharge the powers and functions conferred including approval of merger, corporate reorganization, capital reduction, extension of financial year etc.

Southern India Regional Council

Trivandrum Chapter of Cost Accountants

THE chapter conducted a Professional Development Program on 27th October. It was on Power Sector – a look at issues and challenges for role of CMAs. The programme was led by CMA Venugopal S. member (Finance) Kerala State Electricity Board. CMA Joseph Louis, Chairman TCCA, in his address mentioned the role of power sector in sustainable development, and mentioned that CMAs have active role to play in the three areas Generation, Transmission and Distribution of power. CMA Venugopal S reiterated on India being the fifth largest producer of electricity and the state government accounts for almost 50% of total generating capacity. He also mentioned about hydro power, coal based thermal power and nuclear power development. He further talked on how the power sector has radically restructured with the enactment of electricity act 2003 and how much active role CMAs can play and serve in the regulatory commissions for fixing tariff rates of electricity.

Cochin Chapter of Cost Accountants

THE chapter conducted Campus Placement and One day Seminar on 'Recent CAS and Guidance Notes'. CMA Raju Iyer, Chairman SIRC, Chennai, inaugurated the Campus Placement at Cochin. In the photograph are seen from the left: CMA K. M. Babu, Managing Committee Member, Cochin Chapter, CMA Sankar P. Panicker, Managing Committee Member, Cochin Chapter, CMA Padmanabhan C. S.,Vice Chairman, Cochin Chapter, CMA A. Selvam, Secretary, Cochin Chapter, CMA H. Padmanabhan, Vice Chairman, SIRC and CMA Santhosh Kumar V., Chairman, Cochin Chapter.

Coimbatore Chapter of Cost Accountants

THE chapter organized the annual festival of cost and management accountants students, COSMA-FEST for the year 2013 on 5th October, 2013. Competition events like 'Business Quiz', 'Adzap', 'Just a Minute' and 'Keep Calm & Stay Cool' were conducted. Around 150 Students from more than 15 colleges including our Chapter students enthusiastically participated in the events. Sri Jayakumar Ramdoss, Chairman, The Institute of Indian Foundrymen, Coimbatore inaugurated the event. Sri. M. Gopalakrishnan, Associate Director, Cognizant Technologies Coimbatore, addressed the valedictory function and gave away the prizes to the win-

ners of the events and certificates to the participants and felicitated the proficiency winners. The chapter also organized a programme on 'How to become successful in CMA exams' for the students on 27th October, 2013 at the Chapter Hall. CMA Dr. I. Ashok, Chairman of Madurai Chapter conducted the event. He gave very valuable tips on how to plan, prepare for the exams and how to present the answer for the questions. More than 100 students participated in the programme and gave their feed back as very informative and useful.

Western India Regional Council

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountant

THE chapter had organized a seminar on 'Recent Changes in Service Tax' October 15th 2013, at Chapter office, Akurdi. CMA Laxman Pawar, Chairman of the chapter presided over the function. The guest speaker was CA Sushant Joshi, Manager – Finance, Bajaj Auto Ltd. CMA Pawar gave a brief introduction of the speaker to the audience, and welcomed him. In the technical session, CA Sushant Joshi explained various issues pertaining to Service Tax. The seminar included with discussion on negative list, reverse charge mechanism, VCES scheme among other various issues. The session was very interactive. It was well attended by members in practice and from industry.

Aurangabad Chapter of Cost Accountants

THE chapter organized a felicitation function for the successful students of June 2013 Exam on 21st October, 2013. CMA N.L. Kuyate, Chairman of the Aurangabad Chapter, Chief Guest was Mr. R.V. Pradhamesh, Assistant Commissioner CE&C, Aurangabad, Guest of Hon. Mr. Mallinath Jeure, Assistant Commissioner CE&C, Aurangabad, CMA A.R. Joshi, Chairman, Training & Education Committee of Aurangabad Chapter, CMA R.G. Modani, Ex-Chairman of the Aurangabad Chapter.

Nagpur Chapter of Cost Accountants

THE chapter successfully organized a Campus Placement programme for fresh qualified CMAs at its premises on 18th & 19th October, 2013, under the able guidance of CMA P.V. Bhattad, Chairman of the Placement Committee. The chairman of Nagpur chapter, CMA NP Viswanathan presided over the proceedings to initiate the campus placement and Ms. Kirthana Fernandes from HR Cell of WIPRO was the main resource-person from the company. A total of seventeen candidates of this region who had qualified in the June, 2013 Exams, participated in the Campus Placement programme and six candidates were selected by WIPRO.

Indore Dewas Chapter of Cost Accountants

SERIES I of Colloquy was organized by this chapter on 'Recent Issues in Taxation, Finance, Cost & Management Accounting with Special Reference to CMA E Bulletin - September 2013' on 19th October 2013 at Indore-Dewas chapter premises. CMA Vijay P. Joshi, Chairman PD Committee & Hon. Secretary -WIRC introduced the seminar's theme. CMA Dr. Niranjan Shastri (Treasurer & Ex. Chairman IDCCA) was the seminar resource person. Topics for discussion were linked with recent issues in Taxation, Finance, Cost & Management Accounting. The seminar which was approved for 1 CEP hour, was well attended.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2013

FOUNDATION COURSE EXAMINATION

(Multiple Choice Questions – Online Mode)

Day & Date	Foundation Course Examination	
	Syllabus-2008	
Saturday, 28 th December, 2013.	**Paper – 1 & 2 (100 Marks)** Time : 10 A.M. to 12.00 Noon **Paper 1** : Organisation and Management Fundamentals (50 Marks) **Paper 2** : Accounting (50 Marks)	**Paper – 3 & 4 (100 Marks)** Time : 2 P.M. to 4.00 P.M. **Paper 3** : Economics and Business Fundamentals (50 Marks) **Paper 4** : Business Mathematics and Statistics Fundamentals (50 Marks)
	Syllabus-2012	
Sunday, 29 th December, 2013.	**Paper – 1 & 2 (100 Marks)** Time : 10 A.M. to 12.00 Noon **Paper 1** : Fundamentals of Economics and Management (50 Marks) **Paper 2** : Fundamentals of Accounting (50 Marks)	**Paper – 3 & 4 (100 Marks)** Time : 2 P.M. to 4.00 P.M. **Paper 3** : Fundamentals of Laws & Ethics (50 Marks) **Paper 4** : Fundamentals of Business Mathematics and Statistics (50 Marks)

Examination Fees

Foundation Course Examination	Inland Centres	₹ 1000/-
	Overseas Centres	US $ 60

1. **The Foundation Examination in both syllabus (2008 & 2012) will be conducted in M. C. Q. Mode through Online only.**
2. Total Questions : 100 (Multiple Choice Questions), Maximum Marks : 100 (Each Question will carry 1 Mark). There will be no negative marking for wrong answers.
3. **(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.**
   (b) Application Forms for Foundation Examination is available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (c) Students can also download the Examination Form from ICAI Website at www.icmai.in.
4. **Last date for receipt of Examination Application Forms without late fees is 30th September, 2013 and with late fees of ₹300/- is 10th October, 2013. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 10th October, 2013.**
5. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" and payable at Kolkata.
6. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
7. **Examination Centres**: Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Chittorgarh, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Gandhidham, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, **Port Blair**, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat. **(If no examination centre is available at a particular location, examinees will be accommodated at the nearest Centre available)**
8. **A candidate who is completing all conditions will only be allowed to appear for examination.**
9. **Probable date of publication of result : Foundation – 15th January, 2014.**

A. Das
Director (Examination)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIMETABLE & PROGRAMME – DECEMBER 2013

PROGRAMME FOR SYLLABUS 2008			PROGRAMME FOR SYLLABUS 2012 (REVISED)	
Day, Date & Time	**Intermediate – 2008 9.30 a.m. to 12.30 p.m.**	**Final – 2008 2.00 P.M. to 5.00 P.M.**	**Intermediate – 2012 9.30 A.M. to 12.30 P.M.**	**Final – 2012 2.00 p.m. to 5.00 p.m.**
Tuesday 10 Dec 2013	-----	Capital Market Analysis & Corporate Laws	Financial Accounting	Corporate Laws and Compliance
Wednesday 11 Dec 2013	Financial Accounting	Financial Management & International Finance	Laws, Ethics and Governance	Advanced Financial Management
Thursday 12 Dec 2013	Commercial & Industrial Law & Auditing	Management Accounting – Strategic Management	Direct Taxation	Business Strategy & Strategic Cost Management
Friday 13 Dec 2013	Applied Direct Taxation	Indirect & Direct – Tax Management	Cost Accounting & Financial Management	Tax Management & Practice
Saturday 14 Dec 2013	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Operation Management and Information Systems	Strategic Performance Management
Sunday 15 Dec 2013	——	Advanced Financial Accounting & Reporting	Cost & Management Accountancy	Corporate Financial Reporting
Monday 16 Dec 2013	Operation Management & Information Systems	Cost Audit & Operational Audit	Indirect Taxation	Cost & Management Audit
Tuesday 17 Dec 2013	Applied Indirect Taxation	Business Valuation Management	Company Accounts and Audit	Financial Analysis & Business Valuation

EXAMINATION FEES		
Group (s)	Final Examination	Intermediate Examination
One Group (Inland Centres) (Overseas Centres)	₹1250/- US $ 100	₹1000/- US $ 90
Two Groups (Inland Centres) (Overseas Centres)	₹2250/- US $ 100	₹1600/- US $ 90

(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.
(b) Application Forms for Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs. 50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
(c) Students can also download the Examination Form from ICAI Website at www.icmai.in.
2. Last date for receipt of Examination Application Forms without late fees is 30th September, 2013 and with late fees of Rs. 300/- is 10th October, 2013. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of Rs. 00/- will be waived if applied within 10th October, 2013.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
5. Finance Act 2012, involving Assessment Year 2013-2014 will be applicable for the Subjects Applied Direct Taxation, Applied Indirect Taxation and Indirect & Direct Tax Management for Syllabus 2008 and Direct Taxation, Indirect Taxation and Tax Management & Practice for Revised Syllabus 2012 for the purpose of December 2013 term of Examination.
6. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Inter & Final – 21st February 2014.

A. Das
Director (Examination)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

12, SUDDER STREET, KOLKATA – 700 016.

The Council of the Institute at its 283rd Meeting held on 8th October, 2013 has passed the following resolution:

Opinion on Section 2(2)(iv) of the Cost and Works Accountants Act, 1959 as amended

"Resolved that pursuant to Section 2(2)(iv) of the Cost and Works Accountants Act, 1959 as amended, the Council of the Institute hereby opines that a member shall be deemed to be in practice if he, in his professional capacity and neither in his personal capacity nor in his capacity as an employee, acts as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matters or takes up an appointment made by the Central Government or a State Government or a Court of law or any other legal authority or acts as a Secretary unless his employment is on a salary-cum-fulltime basis;

Provided that nothing contained hereinabove, shall apply to a member who is holding a Certificate of Practice from the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or from the Bar Council or such other bodies, as may be specified in this behalf, by the Council."

New Office Bearers of TOCCAI for 2013-14

In the AGM the newly appointed Board of Toronto Overseas Centre of Cost Accountants of India are:

Mr. R.K. Choudhary (Chairman)
529 Victoria Park Avenue
Totonto, ON, M4C 5H2, Canada.
Tel: 001-416-686-9899
e-mail: rkchoudhary@yahoo.com

Mr. Nandkumar Prabhune (Secretary)
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Cell: 001-416-455-5709
e-mail: Prabhune.nandkumar12@gmail.com

Mr. Srikanth Sankaranarayanan (Vice-Chairman)
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Mississauga, ON, L5W 0E2
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Tel: 001-416-459-2647
e-mail: kanth1999@gmail.com

Ms. Anu Jain (Treasurer)
17 Firwood Cres.
Brampton, ON, L6P 2J6
Canada
Tel: 001-905-790-9328
Cell: 001-416-371-5866
e-mail: anujain10@gmail.com

NOTIFICATION

It is hereby notified vide Notification Nos. 18-CWR (3439-3456)/2013 dated 30th September 2013, 18-CWR (3457-3480)/2013 dated 1st October 2013, 18-CWR (3481-3531)/2013 dated 4th October 2013, 18-CWR (3532-3574)/2013 dated 7th October 2013 and 18-CWR (3575-3603)/2013 dated 21st October 2013 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of members, details of which are uploaded on the Institute's website www.icmai.in

MANAGEMENT ACCOUNTANCY EXAMINATION TIMETABLE & PROGRAMME – DECEMBER 2013

Tuesday	Tuesday	Wednesday	Wednesday	Thursday
10th December, 2013 09.30 A.M to 12.30 P.M	10th December, 2013 02.00 P.M to 05.00 P.M	11th December, 2013 09.30 A.M to 12.30 P.M	11th December, 2013 02.00 P.M to 05.00 P.M	12th December, 2013 09.30 A.M to 12.30 P.M
Management Accountancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination fees: Per Group Rs 2500/-

1. (a) Application Form for Management Accountancy Examination is available from Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad on payment of Rs 50/- per form.
   (b) Students can also download the Examination Form from ICAI Website at www.icmai.in.

2. Last date for receipt of Examination Application Form without late fees is 10th October, 2013 and with late fees of Rs 300/- is 20th October,2013.

3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.

4. Students may submit their Examination Application Form along with the fees at Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad. Any query in this regard may be addressed to Directorate of Advanced Studies, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad.

5. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.

6. A candidate who is completing all conditions will only be allowed to appear for examination.

Dr. P. S. S. Murthy
Director (Advanced Studies)

CMA DOSSIER

A directory of some research papers on **Cost Management Techniques** that appeared in various journals/periodicals/magazines across the globe is presented below for the reference of readers. The articles are available at the link provided next to them.

Name of The Topic	Author(s)	Publication and date	Link
Kennel-Up Company: An Analysis of Target Costing and Strategic Cost Management Techniques	L. Melissa Walters, Teresa M. Pergola and Erika Matulich	Journal of Business Cases and Applications September-2013	http://www.aabri.com/manuscripts/131635.pdf
Contemporary Management Accounting Control Techniques and Marketing Strategy Interaction: Enhancing Profitability in SMES in Nigeria	Omorogbe, Comfort E and Ighodalo, David Ehizojie	Research WebPub August-2013	http://www.researchwebpub.org/wjbm/pdf/2013/August/Omorogbe%20and%20Ighodalo.pdf
Cost - Methods, Techniques of Cost Accounting and Classification of Cost	A Textbook of Financial Cost and Management Accounting	A Textbook of Financial Cost and Management Accounting March-2013	http://dosen.narotama.ac.id/wp-content/uploads/2013/02/Chapter-11-Cost-Methods-Techniques-of-Cost-Accounting-and-Classification-of-Cost1.pdf
ABC Method – Management Techniques for Costing in Business Logistics	Pavel Ceniga, Viera Šukalová	Carpathian Logistics Congress, Jeseník, Czech Republic, EU, February-2013	http://konsys2.tanger.cz/files/proceedings/09/reports/937.pdf
A Review of Cost Management Techniques in Planning Phase of Construction Projects	Tazyeen Ahmad	Global Research Analysis, January-2013	http://theglobaljournals.com/gra/file.php?val=NDUz
Strategic Management of Costs - The Main Tool of Competitive Advantage in The Current Economic Environment	Corina Miculescu, Marius Nicolae Miculescu	"Dimitrie Cantemir" Christian University, Faculty of Management Tourism and Commerce, October-2012	http://fse.tibiscus.ro/anale/Lucrari2012/kssue2012_141.pdf
Implementation of Critical Path Method and Project Evaluation and Review Technique	Selma Ćatović	International Burch University Faculty of Economics Management and Information Technologies, February-2012	http://gsu.ibu.edu.ba/assets/gsu/userfiles/SAMPLE_RESEARCH_PROPOSAL.pdf
Assessing the Contribution of Product Life Cycle Cost Analysis, Customer Involvement, and Cost Management to Competitive Advantage of Firms	Dunk, A. S.	Advances in Management Accounting November - 2012	www.emeraldinsight.com/books.htm?chapterid=17031729
Inter-Organizational Cost Management in a Brazilian Context	Bhimani, A., B. C. De Souza and W. Rocha	Cost Management, November/December-2011	http://blog-fipecafi.imprensa.ws/wp-content/uploads/2012/04/Blog-Professores-da-FIPECAFI-publicam-artigo-na-Cost-Management-Magazine.pdf
Cost Control Techniques Used on Building Construction Sites in Uganda	George Otim, Fiona Nakacwa and Michael Kyakula	Second International Conference on Advances in Engineering and Technology, June- 2011	http://mak.ac.ug/documents/Makfiles/aet2011/Otim-2.pdf
Which Management Accounting Techniques Influence Profitability in The Manufacturing Sector of Pakistan?	Syed Maqbool-ur-Rehman	Pakistan Business Review, April-2011	http://www.iobm.edu.pk/pbr/pbr_1104/110406_53-105.pdf
Evaluating Heuristics Used When Designing Product Costing Systems	Balakrishnan R. S. Hansen and E. Labro	Management Science, March-2011	http://www pubsonline.informs.org/doi/abs/10.1287/mnsc.1100.1293
Cost Control and Management Issues of Global Research Infrastructures	Report of the European Expert Group on Cost Control and Management	European Commission, Directorate-General For Research, October-2010	http://ec.europa.eu/research/infrastructures/pdf/cost_control.pdf
Cost Management and Cost Control in Decisional Process of Organizations	Stefania – Eliza Bana (Panciu) and Florin Sgârdea	Annales Universitatis Apulensis Series Oeconomica, January-2010	http://www.oeconomica.uab.ro/upload/lucrari/1120091/06.pdf
Cost Management Diversity and Global World: What Can We Learn?	Bhimani, A. and M. Gosselin	Cost Management, September/October-2009	http://eprints.lse.ac.uk/41363/
Interorganizational Cost Management in the Exchange Process.	Agndal, H. and U. Nilsson.	Management Accounting Research, June-2009	http://www.sciencedirect.com/science/article/pii/S1044500508000279
Cost-Based Management and Decision Making in Greek Luxury Hotels	Stella Zounta and Michail G. Bekiaris	An International Multidisciplinary Journal of Tourism, Spring-2009	http://mpra.ub.uni-muenchen.de/25459/1/VOLUME_4_No3_art12.pdf

I) Author Index 2013 (Vol. 48 Nos. 1–12)

II) Article Index 2013

III) MISCELLANEOUS INDEX

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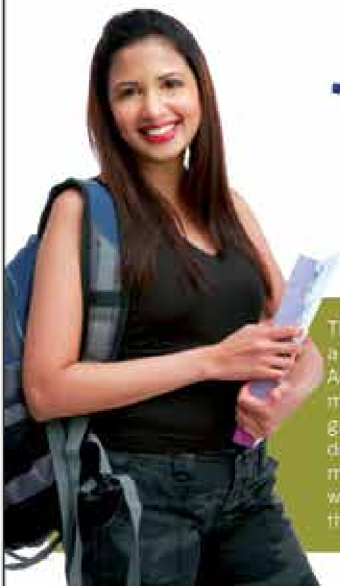

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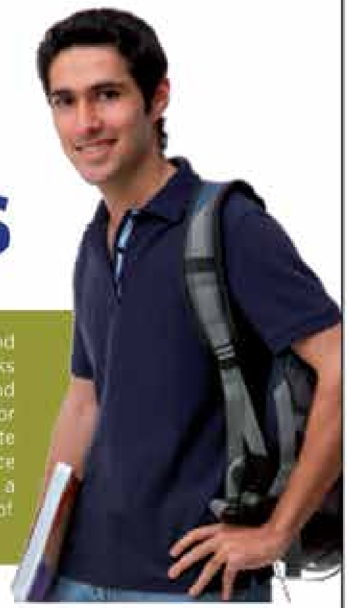

The Institute of Cost Accountants of India is a premier professional institute and a statutory body constituted under an Act of Parliament viz. the Cost and Works Accountants Act, 1959 to regulate and develop the profession of cost and management accountancy in the country. The Institute is at the forefront for grooming professionals to take up the challenges in the area of corporate decision making, management accounting, resource management, performance management, financial reporting and strategy, valuation management across a wide spectrum of industries in the manufacturing, services and other sectors of the economy.

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Eligibility

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Intermediate	Foundation (pass) or Graduate (pass or appearing)	Foundation (pass) or Graduate (pass)

Fees Structure

Foundation Course		Intermediate Course		Final Course	
Postal Coaching	Oral Coaching	Tuition Fees for Postal Coaching (both groups)	Tuition Fees for Oral Coaching (both groups)	Tuition Fees for Postal Coaching (both groups)	Tuition Fees for Oral Coaching (both groups)
Rs. 4,000	Rs. 4,000	Rs. 16,000	Rs. 20,000	Rs. 12,000	Rs. 17,000

Practicing Areas for Cost Accountants

(A) Audit under different statues & authorizations

- Cost audit under Companies Act
- Special audit under Central Excise Act, Service Tax Rules and Customs Act
- Audit under Value Added Tax Act of State Government
- Due diligence audit mandated by Reserve Bank of India
- Internal audit mandated by SEBI & NSDL
- Stock audit concurrent audit of banks
- Internal audit of public sector enterprises

(B) Certification of various returns / forms prescribed by following ministries / departments of the Government of India

- Ministry of Commerce
- Ministry of Consumer Affairs, Food & Public Distribution
- Ministry of Corporate Affairs
- Ministry of Finance
- Ministry of Textiles
- Directorate General of Foreign Trade (DGFT)
- Fertilizer Industry Coordination Committee (FICC)
- National Pharmaceutical Pricing Authority (NPPA)

For Prospectus Contact

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Rohit Chambers, 4th floor, Janmabhoomi Marg, Fort, Mumbai 400001.
Ph.: (022) 22043416 / 22841138 / 22043406 Email: wirc@icmai.in

Southern India Regional Council:
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Ph.: (044) 28554443 / 28554326 Email: sirc@icmai.in

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CMA Bhawan, 84 Harish Mukherjee Road, Kolkata 700025.
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You can also contact any of our chapters in almost a 100 cities all over the country.

The Institute of Cost Accountants of India
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