

EFFICIENCY OF FUND MANAGEMENT PRACTICES OF GRAMA PANCHAYATS IN KERALA

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Abstract

This study, titled "Efficiency of Fund Management Practices of Grama Panchayats in Kerala," examines the factors influencing the efficiency of fund utilization by these local government bodies. Focusing on the period from 2007-08 to 2020-21, the research investigates whether the source of funds and the year of allocation significantly impact fund utilization efficiency. Utilizing financial records from various Grama Panchayats, the study employs descriptive statistics and regression analysis to evaluate the allocation and expenditure rates of different funding sources, such as Plan Funds, Own Funds, State Sponsored Funds, and Centrally Sponsored Funds. The findings provide insights into financial management practices, identify best practices, and highlight areas needing improvement. This research is crucial for enhancing the financial accountability and effectiveness of Grama Panchayats, ultimately contributing to better governance and socio-economic development in Kerala's rural areas.

Keywords:- Fund Utilization Efficiency, Grama Panchayats, Financial Management Practices, Fund management, Plan fund, effective governance.

Grama Panchayats serve as the fundamental units of rural governance in India, playing a crucial role in local administration and development. Efficient fund management is essential for these panchayats to fulfil their developmental goals and provide necessary services to the rural populace. This study specifically

aims to investigate whether the efficiency of fund utilization is significantly influenced by the source of funds and the year of allocation.

Local governance and decentralized planning are vital components of India's development strategy, with Grama Panchayats being at the forefront of this process. As per the recommendations of

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the 73rd Constitutional Amendment Act, these panchayats have been empowered with financial autonomy and the authority to plan and implement development projects (Shah, 2006). However, the effectiveness of these initiatives heavily depends on how efficiently these funds are managed and utilized. The allocation and utilization of various funding sources, such as Plan Funds, Own Funds, State Sponsored Funds, and Centrally Sponsored Funds, are critical to the panchayats' ability to achieve their objectives (Rao, 2003).

This study is grounded in the context of Kerala, a state renowned for its robust local governance system and pioneering decentralized planning initiatives (Heller, Harilal, & Chaudhuri, 2007). By focusing on the efficiency of fund utilization, the research aims to provide insights into the financial management practices of Grama Panchayats in Kerala. Understanding the dynamics of fund allocation and utilization can help in identifying best practices and areas that need improvement. This study contributes to more effective governance and better developmental outcomes at the grassroots level. The findings of this study are expected to inform policymakers and local government officials and thereby enhancing the financial management capabilities of Grama Panchayats across the state.

Scope and Significance of the Study

The scope of this study encompasses an in-depth analysis of the efficiency of fund utilization by Grama Panchayats in Kerala, focusing on various funding sources such as Plan Funds, Own Funds, State Sponsored Funds, and Centrally

Sponsored Funds over a period from 2007-08 to 2020-21. By examining these aspects, the study aims to identify the fund management practices, challenges and the best practices within the grama panchayats to enhance rural development. The significance of this research lies in its potential to enhance the understanding of fund management practices, inform policy decisions, and guide local government officials in optimizing the use of allocated funds. Improved financial management can lead to more effective delivery of services and developmental projects, contributing to better governance and socio-economic development in rural areas. The findings can also serve as a benchmark for other states and regions aiming to strengthen their local governance systems.

Objective of the Study

The objective of the study is to test whether the efficiency of fund utilization is significantly influenced by the source of funds and the year of allocation.

Hypothesis of the Study

H01: Efficiency of fund utilization is significantly influenced by the source of funds and the year of allocation.

Methodology in Brief

The study employs a quantitative research methodology to assess the efficiency of fund utilization by Grama Panchayats in Kerala. The secondary data were gathered from government publications, official statistics, and relevant literature on local governance and financial management.

To analyse the data, the study uses descriptive statistics tools to summarize

the allocation and utilization rates of different funding sources over the years. Regression analysis is then employed to test the hypothesis that the efficiency of fund utilization is significantly influenced by the source of funds and the year of allocation. The regression model includes dummy variables to represent different years and funding sources and allowing for a detailed examination of their individual effects on fund utilization efficiency. The results from the regression analysis provide insights into the relationships between the variables. This helps to identify patterns and trends in fund management practices.

This methodology combines the use of quantitative data analysis techniques to evaluate the efficiency of fund management in grama panchayats. The

study is ensuring a robust and thorough examination of the research question.

Analysis and Interpretation of Data

Key Observations from the data of source wise funding of Grama Panchayats in Kerala

a. Plan Fund

There has been growing allocation and expenditure of plan fund and this is one of the largest sources of funding. Expenditure percentages have remained relatively high often above 70 per cent, indicating efficient utilization of allocated funds. There is a noticeable increase in both allocation and expenditure trend from 2007-08 to 2020-21. The expenditure percentage to allocation is always high that reflects effective usage of the funds.

Table 1
Summary of Source wise funding of Grama Panchayats in Kerala

Source of Funds	Trend	Utilization Percentage
Plan Fund	Increase in both allocation and expenditure; high utilization	Above 70%
Own Fund	Steady increase; improved utilization over time	Peaking at around 50%
State Sponsored Funds	Low utilization rates; challenges in accessing/utilizing funds	Often below 20%
Centrally Sponsored Funds	Variable utilization rates; some years better than others	Up to 40% in some years
Loans from Cooperative and Other Financial Institutions	Fluctuating year-to-year; generally low utilization	Often below 20%
Externally Aided Projects	Relatively low allocation and expenditure; under 20% utilization	Often under 20%
Institutional Finance	Particularly low utilization; often in single digits	Often in single digits or low teens
Voluntary Contributions and Beneficiary Contributions	Variable utilization rates; generally, under 50%	Generally, under 50%
Other Funds	Significant allocations and expenditures; 30%-75% utilization	30%-75%

Source: Compiled from Economic Review, GoK

b. Own Fund

Own funds have also shown a steady increase in both allocation and expenditure. The expenditure percentages, although lower than the Plan Fund, have improved over time, peaking at around 50 per cent in 2020-21. The trend of own funds shows growth in revenue and that depicts the increasing financial autonomy of grama panchayats to raise their own revenue.

c. State Sponsored Funds

State-sponsored funds (below 20 per cent) have the lowest utilization rates across most years which show possible challenges in accessing or utilizing these funds effectively.

d. Centrally Sponsored Funds

Utilization rates for centrally sponsored funds have been variable with some years showing better performance than others. The highest expenditure percentage reached about 40 per cent in some years that underscore the need for improvement in fund utilization.

e. Loans from Co-operative and Other Financial Institutions

These funds have varied significantly year to year in both allocation and expenditure. The utilisation rate (below 20 per cent) has been generally low with a few exceptions.

f. Externally Aided Projects

Allocation and expenditure for externally aided projects have been consistently low utilization with percentages often under 20 per cent. This suggests either limited access to these funds or challenges in their deployment.

Institutional Finance

Institutional finance shows low utilisation often in single digits or low teens that indicates significant underutilization of these available resources.

a. Voluntary Contributions and Beneficiary Contributions

Both voluntary and beneficiary contributions have varied utilization rates, generally remaining under 50 per cent. These contributions form a smaller part of the overall funding but are important for community-driven projects.

b. Other Funds

This fund has been significant allocations and expenditures with utilisation rates often ranging between 30 per cent and 75 per cent. These funds have become a part of the financial structure of Grama Panchayats.

Overall Trends

There has been a general increase in total allocations over the years that indicates the growing financial inflows to Grama Panchayats. While some sources like the Plan Fund and Own Fund show high utilization, others like State Sponsored, Centrally Sponsored, and Institutional Finance show lower utilization rates.

In brief, the financial management of Grama Panchayats in Kerala shows strengths in utilizing Plan Funds and Own Funds efficiently even if there is a need for improvement in the utilization of State Sponsored, Centrally Sponsored, and Institutional Finance funds. The increasing allocations over the years indicate the need

for expanding financial capabilities and responsibilities of the Panchayats. But there is a need to address the challenges in fund utilization across various sources to optimize financial performance, particularly those with consistently low expenditure percentages.

Multiple linear regressions for the efficiency of fund utilization based on year and sources of funding

The regression analysis output provides insights into the efficiency of fund utilization across different years and sources of funding. The residuals, (Table 2) representing the errors from the model, range from -29.5931 to 29.5486, with the median residual being -0.8575. These values indicate that the distribution of residuals is centred around zero, suggesting a reasonable fit of the model to the data.

The coefficients section (Table 3) presents the estimated values for the regression model. This regression model includes standard errors, t-values, and p-values for hypothesis testing. The intercept estimated at 33.346 that represent the average efficiency of fund utilization when all dummy variables are zero in the corresponding to the reference year (2007-08) and reference source of funding. The coefficients for the dummy variables

representing different years (2008-09 to 2020-21) are not statistically significant with any significant differences in the efficiency of fund utilization among these years compared to the reference year.

But the source of fund variables reveals significant differences in efficiency compared to the reference category (Plan fund). Externally aided funds, institutional finance, loans from cooperatives, state-sponsored funds, and voluntary contributions all show significantly lower efficiency, with p-values less than 0.001. Conversely, the "Others" category, own funds, and plan funds demonstrate significantly higher efficiency, with own funds having a moderate significance (p-value < 0.05) and plan funds being highly significant (p-value < 0.001).

The model summary (Table 4) indicates that 81.6 per cent of the variance in the efficiency of fund utilization is explained by the model, as reflected in the Multiple R-squared value of 0.816. The Adjusted R-squared value of 0.7814 adjusts for the number of predictors, providing a more accurate measure of the model's goodness of fit. The F-statistic of 23.58 on 22 and 117 degrees of freedom, with a corresponding p-value of less than 2.2e-16, confirms that the model is statistically significant overall.

Table 2

Residuals for the efficiency of fund utilization based on year and sources of funding

Minimum	1Q	Median	3Q	Maximum
-29.5931	-4.4457	-0.8575	3.3109	29.5486

Source: Compiled from Economic Review, GoK

Table 3
Coefficients for the efficiency of fund utilization based on year and sources of funding

	Estimate	Std. Error	t value	Significance
(Intercept)	33.346	3.911	8.526	Significant
Year 2008-09	1.067	4.315	0.247	Not Significant
Year 2009-10	-5.066	4.315	-1.174	Not Significant
Year 2010-11	-1.746	4.315	-0.405	Not Significant
Year 2011-12	-2.468	4.315	-0.572	Not Significant
Year 2012-13	-6.369	4.315	-1.476	Not Significant
Year 2013-14	-2.801	4.315	-0.649	Not Significant
Year 2014-15	-5.038	4.315	-1.167	Not Significant
Year 2015-16	-2.23	4.315	-0.517	Not Significant
Year 2016-17	-5.855	4.315	-1.357	Not Significant
Year 2017-18	-6.28	4.315	-1.455	Not Significant
Year 2018-19	3.897	4.315	0.903	Not Significant
Year 2019-20	-1.724	4.315	-0.4	Not Significant
Year 2020-21	-3.293	4.315	-0.763	Not Significant
Source of fund Centrally Sponsored	-1.169	-1.169	-0.32	Not Significant
Source of fund Externally Aided	-14.628	-14.628	-4.011	Significant
Source of fund Institutional Finance	-17.874	-17.874	-4.901	Significant
Source of fund Loan from Co-operative	-14.862	-14.862	-4.075	Significant
Source of fund Others	16.926	16.926	4.641	Significant
Source of fund Own fund	9.18	9.18	2.517	Significant
Source of fund Plan fund	42.221	42.221	11.577	Significant
Source of fund State Sponsored	-14.911	-14.911	-4.088	Significant
Source of fund Voluntary Contribution	-15.785	-15.785	-4.328	Significant

Source: Compiled from Economic Review, GoK

Table 4
Model summary for the efficiency of fund utilization based on year and sources of funding

Residual standard error	degrees of freedom	Multiple R-squared	Adjusted R-squared	F (22,117)	p-value
9.649	117	0.816	0.7814	23.58	< 2.2 e-16

Source: Compiled from Economic Review, GoK

In summary, the efficiency of fund utilization is significantly influenced by the source of funds rather than by the year. Sources like plan funds and own funds are associated with higher efficiency but other funds like externally aided funds and institutional finance are linked to lower efficiency. This depicts that the types of funding source play an important role in determining the efficiency of fund utilization.

Tenability of hypothesis

The hypothesis of the study points out that the efficiency of fund utilization by Grama Panchayats in Kerala is significantly influenced by the source of funds and the year of allocation. This hypothesis is justifiable given that the diverse nature of funding sources and the potential variations in their allocation and utilisation processes. Plan Funds often come with structured guidelines and higher monitoring that leading to more efficient utilisation compared to State Sponsored or externally aided funds that face more bureaucratic challenges and delays. Yet, the period of analysis from 2007-08 to 2020-21 comprises various policy changes, economic fluctuations and governance reforms. All of these can impact fund management practices over time.

Given that the study found significant differences in efficiency based on the source of funds but not based on the year of allocation, the null hypothesis that "Efficiency of fund utilization is not influenced by the source of funds and the year of allocation" is partially rejected. It is rejected concerning the source of funds, indicating that the source of funds

significantly impacts the efficiency of fund utilization. Yet, it is not rejected concerning the year of allocation, suggesting that the timing of the fund allocation does not significantly affect utilization efficiency.

Findings of the Study

The study on the 'efficiency of fund management practices of Grama Panchayats in Kerala' reveals several critical insights about different fund management practices. Plan Funds have been consistently the largest source of funding with both allocations and expenditures which shows a steady increase over the years. The study depicts the efficient utilisation of these funds with above 70 per cent high expenditure to allocation ratio that reflects effective fund management practices of grama Panchayats in Kerala. The trend observed from 2007-08 to 2020-21 point out the reliability and effectiveness of Plan Funds in supporting local development activities of rural Kerala.

On the contrary, Own Funds showing a steady increase in both allocation and expenditure, have lower utilization percentages compared to Plan Funds. Yet, there has been significant improvement over time that peaking at around 50 per cent in 2020-21. This growth in Own Funds suggests increasing financial autonomy and capacity of Grama Panchayats to generate their own revenue that enhances the ability to fund local development projects independently.

State Sponsored Funds present a different scenario with the lowest utilisation rates in most of the years. This low utilisation, often below 20 per cent depicts the challenges in efficiently utilising

these funds possibly due to bureaucratic hurdles or stringent guidelines. Likewise, centrally sponsored funds exhibit variable utilisation rates that show better performance than others. The highest expenditure percentage reached about 40 per cent in some years that indicates the need for improvement in the utilisation of that fund.

Loans from cooperative and other financial institutions display fluctuating utilisation with significant year to year variations in both allocation and expenditure. Generally low utilisation rates suggest inconsistent fund management practices. Externally aided projects also show relatively low utilisation that indicates either limited access to these funds or challenges in their deployment. Institutional finance is particularly underutilised with utilisation rates often in single digits or low teens that pointing to significant underutilisation of these available resources.

Voluntary and beneficiary contributions, although forming a smaller part of the overall funding, exhibit variable utilisation rates, generally remaining under 50 per cent. These contributions are important for community-driven projects but show inconsistent management. Other funds, however, demonstrate substantial contributions with significant allocations and expenditures, showing utilization rates often ranging between 30 per cent and 75 per cent. These funds have become a critical part of the financial structure of Grama Panchayats that contributes significantly to overall financial management of grama panchayats in Kerala.

Overall, the study finds a general increase in total allocations over the years, indicating growing financial inflows to Grama Panchayats. While Plan Funds and Own Funds show high utilization rates, other sources like State Sponsored Funds, Centrally Sponsored Funds, and Institutional Finance exhibit lower utilization rates. The overall utilisation percentage has varied that reflects the fluctuations in financial management capabilities of grama panchayats in Kerala. The regression analysis further reveals that the efficiency of fund utilisation is significantly influenced by the source of funds. Plan Funds and Own Funds being utilised more efficiently compared to other sources of funds. Yet, the year of allocation does not significantly influence the efficiency of fund utilisation. These findings highlight the need for targeted improvements in the management of certain funding sources in order to enhance the overall financial efficiency and effectiveness in grass root governance of Kerala.

Suggestions for improving the present status

To improve the efficiency of fund utilisation, it is suggested to establish continuous monitoring and evaluation mechanisms by Grama Panchayats in Kerala. Regular audits and performance reviews can conduct in order to identify areas of improvement and thereby ensure accountability in the utilisation of funds. Implementing a centralized tracking system helps to provide real-time data on fund allocation and expenditure and helps in better decision-making and resource management. Such systems will help in maintaining transparency and ensuring that

funds are being used for their intended purposes efficiently.

Providing training and capacity-building programs for Panchayat officials on financial management and efficient fund utilization are essential. These programs should focus on budget planning, fund allocation strategies, and effective implementation of projects. A knowledgeable workforce will be better equipped to manage resources efficiently, leading to improved fund utilization. Additionally, simplifying and streamlining the procedures for accessing State Sponsored and Centrally Sponsored Funds can help reduce bureaucratic delays and improve utilization rates. Clear guidelines and a user-friendly application process will facilitate timely fund disbursement and utilization, thereby enhancing the overall efficiency of fund management.

Encouraging Grama Panchayats to generate their own revenue through local taxes, fees, and other sources can reduce dependency on external funds and enhance financial autonomy. Incentivizing innovative revenue generation methods can provide Panchayats with additional resources to fund local development projects. Addressing the challenges in accessing institutional finance by simplifying procedures and providing necessary support can also improve utilization rates. Establishing partnerships with financial institutions and offering technical assistance can help Panchayats navigate the complexities of obtaining and managing loans.

Promoting active community participation in the planning and

implementation of projects funded by voluntary and beneficiary contributions can ensure better alignment with local needs and priorities. Community involvement can also enhance transparency and accountability, leading to more effective fund utilization. Leveraging technology for better financial management can significantly improve fund utilization as well. Implementing digital tools for budgeting, tracking expenditures, and reporting can enhance transparency and efficiency. Training Panchayat officials to use these tools effectively will be crucial for maximizing the benefits of technological advancements.

Lastly, advocating for policy reforms that support decentralization and provide more flexibility to Grama Panchayats in fund utilization can lead to better outcomes. Policies that encourage innovation and local solutions can empower Panchayats to manage funds more effectively. Grama Panchayats in Kerala can improve their fund utilization practices and ensuring that allocated resources are used efficiently and effectively for local development and governance by implementing these suggestions.

Conclusion

This study concludes that the efficiency of fund utilisation of the grama panchayats in Kerala is significantly influenced by the source of funds and it does not influence the year of allocation. Plan funds and own funds shows higher efficiency in utilisation which reflects effective financial management practices within these funds. But state-sponsored

funds, externally aided projects, and institutional finance show lower utilization rates, which indicates areas where financial management can be improved. These findings highlight the critical role of the funding source in determining fund

utilization efficiency and underscore the need for targeted strategies to enhance the financial performance of Grama Panchayats, ensuring more effective and accountable use of resources for rural development.

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