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Development Intersection Due To Interest Earning Policy of Urban Local Governments – A Study

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ABSTRACT

Local governments have different sources of income; some of them are tax and non-tax revenues. Own source revenue comprises tax and non-tax income. But owing to rapid pace of urbanization and the need for urban infrastructure development, own source revenue generated by the municipalities often fall short to meet the requisite demand. As a result local bodies depend on state and central government grants and other borrowings from financial institutions. This study aims to identify the different source of own revenue mainly the interest income earned by the municipalities.

Keywords: Direct Benefit Transfer, Urbanization, Tied Fund, Un-tied Fund, Non tax Income.

INTRODUCTION

Municipal finance is the constant tension between the funds and expenditures of local governments. But in India, local governments have insufficient revenue tools to meet their expenditure requirements. Municipality collected their revenue in two phases, one of them is government grants and another is own source revenue. The very low level of own revenue generation in municipality of India provided most typical features. Internal revenue sources like property tax, user charges and fees, rental income and interest income are perhaps the most critical funding levels available to municipality. Without effective planning it will be a tremendous challenge to fulfill the desired funding which will be needed by the urban infrastructure. Internal sources are inadequate to meet the infrastructure investments. The collection of own source revenue of a municipality is a reflection of the quality of its governance and the transparency and accountability of its administration.

LITERATURE REVIEW

Amitabh Bahar and Yogesh Kumar (2002) explained clearly that three broad sets of issue that are hampering the development of an effective panchayat system in the state. First issue is inadequate financial devolution, second issue is socio economic and political problem and final issue is lack of information among common people about the panchayati raj.

Enid Slack (2009) discussed that more and more people are living in cities in both developed and less developed countries and rapid increase in the urban population has put pressure on local governments. To meet the rising demands of urbanization, municipalities need adequate revenue tools to pay for services and infrastructure.

Chetan Vaidya (2009) observed that urban trends, projected population, service delivery, institutional arrangements, municipal finance, innovative financing etc. it has also described the constitutional amendments as well as administrative actions to improve India's urban areas.

Om Prakash Mathur (2011) reveals that the finance of municipalities aims to reinforce and advance the suggestion that India's municipal system is in new of major repair and reforms. The municipal sector has long been neglected in India. In many respects as this study illustrates it resembles the initial framework developed in the latter part of the 19th century. The system needs urgent alignment with the country's growth trajectory.

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Shashank Atreya and Alok Prasanna Kumar (2012) reveals that financing of urban local bodies in India is a subject which has received much attention from result, services to the citizens suffer. This study also discussed the legal and regulatory framework governing the financing of ULB’s in Karnataka, in an effort to identify and address those legal impediments that restrict the ULB’s from being financially independent.

OBJECTIVES:

1) To find the gap between interest receipts of the municipality.
2) To analyze the collection procedures of various funds of the municipality.
3) To analyze the cash management policy of the municipality.

METHODOLOGY

The data which have been used in this study relate to secondary. The secondary data are collected from published reports, various books, journals and periodicals of Barrackpore and Dumdum Municipality. So as for that, the financial records of the Barrackpore and Dumdum municipality will be collected for last 6 years starting from of 2012-2013 to 2018-19. We have used descriptive statistics and various charts and graphs for analytical purpose.

DBT VS INTEREST EARNINGS

Direct Benefit transfer (DBT) scheme was another setback to the local bodies. Although DBT implementation could potentially help target subsidiaries, incentives behavior change and reduce wastage of scare public funds. Several public schemes have been implemented by the state or central government with the help of local bodies. But in recent times local bodies act like a care taker of central or state government financial inclusion. Previously the fund disbursed by the central or state government was deposited to the local bodies’ bank account, but after the implementation of DBT scheme the financial inclusion direct transferred to the beneficiary’s bank account, as a result local bodies turned up to huge interest loss, which affect their own source revenue earnings.

REVENUE VS URBANIZATIONS

Urbanization put additional strain on the financial resources of municipal institutions. Municipal governments are being constantly challenged to keep up with the expanding needs of public spending and it is essential that municipal governance is financially strengthened to keep pace with urbanization. But the source of income of municipality very narrow, the earlier discussion showed that municipality mainly depends on government grants. Government grants also expand in two dimensions one is tied fund and another is un-tied fund. So without particular project, central or state government nothing to allotted to the municipal body. But municipalities need daily fund to operate the various project related expenditure to the public. In India, the constitution of 74th amendment laid down the several powers to the local governments under its 12th schedule. The schedule defines 18 functions which urban local bodies need to perform. Due to financial difficulties municipalities face various problems to implement the several projects. Indian constitutions also specified that the municipalities are responsible for the provision of basic services like safe drinking water, clean sanitation system, electricity, solid waste management and safety road to all citizens. To provide those services municipalities need strong financial assistance. Municipalities have not only trying to increase their own source of revenue, they also trying to earn continuous funds through own source revenue. Interest income is one of the source of own source revenue. The detail of interest income is described in the next points.

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DATA ANALYSIS

TABLE: 1

INTEREST COLLECTION AND PERCENTAGE OF OWN SOURCE				
YEAR	BARRACKPORE MUNICIPALITY		DUMDUM MUNICIPALITY	
	INTEREST COLLECTION (RS)	% OF OWN SOURCE	INTEREST COLLECTIO N (RS)	% OF OWN SOURCE
2012-13	15299893	13.97733301	2814160	1.817975471
2013-14	12565827	10.8079029	6870394	3.900862677
2014-15	8058421	6.314352263	4828311	2.822410999
2015-16	7383823	5.956917369	4628098	4.116486414
2016-17	12084695	7.44009382	5102000	4.362622704
2017-18	9134200	5.001596161	5680000	4.468219006
2018-19	9590862	4.91783987	4680000	3.089537164

Source: Data edited from the published report by the Municipalities.

More than 90 percent of the people in Barrackpore and Dumdum municipality are urbanized and municipalities have huge pressure for their developmental work. From the above discussion we have been seen that interest income were one of the contributor in own source revenue of the municipalities. Table-1 shows that the clean picture about the interest collection of the two municipalities of North 24 pargana in West Bengal. In case of Barrackpore municipality interest has been collected from the year 2012-13 to 2018-19 were RS. 15299893, 12565827, 8058421, 7383823, 12084695, 9134200 and 9590862 respectively, and Percentage of interest earning in own source revenue from the year 2012-13 to 2018-19 has been 13.98, 10.81, 6.31, 5.96, 7.44 and 4.92 respectively. However a percentage of interest collection by the Dumdum municipality is less than Barrackpore municipality. From the years 2015-16 to 2017-18 the collection of interest in own source revenue has been just more than 4 percent, whereas in 2012-13 the percentage of interest collection in own source revenue was 1.82. In 2018-19 the percentage has been decreased by 3.08. So from the above table it has been cleared that, the collection of interest has not been up to mark in municipality concern.

TABLE: 2

INTEREST COLLECTIONS AND DIFFERENCES IN SEVERAL YEARS						
YEAR	BARRACKPORE MUNICIPALITY			DUMDUM MUNICIPALITY		
	INTEREST COLLECTION (RS)	DIFFERNCE (RS)	% OF INCREASE/ DECREASE	INTEREST COLLECTION (RS)	DIFFERNCE (RS)	% OF INCREAS E/DECRE ASE
2012-13	15299893	0	0	2814160	0	0
2013-14	12565827	-2734066	-21.757947	6870394	4056234	59.03932
2014-15	8058421	-4507406	-55.934109	4828311	-2042083	-42.2939
2015-16	7383823	-674598	-9.1361616	4628098	-200213	-4.32603
2016-17	12084695	4700872	38.899385	5102000	473902	9.288554
2017-18	9134200	-2950495	-32.301625	5680000	578000	10.17606
2018-19	9590862	456662	4.7614281	4680000	-1000000	-21.3675

Source: Data edited from the published report by the Municipalities.

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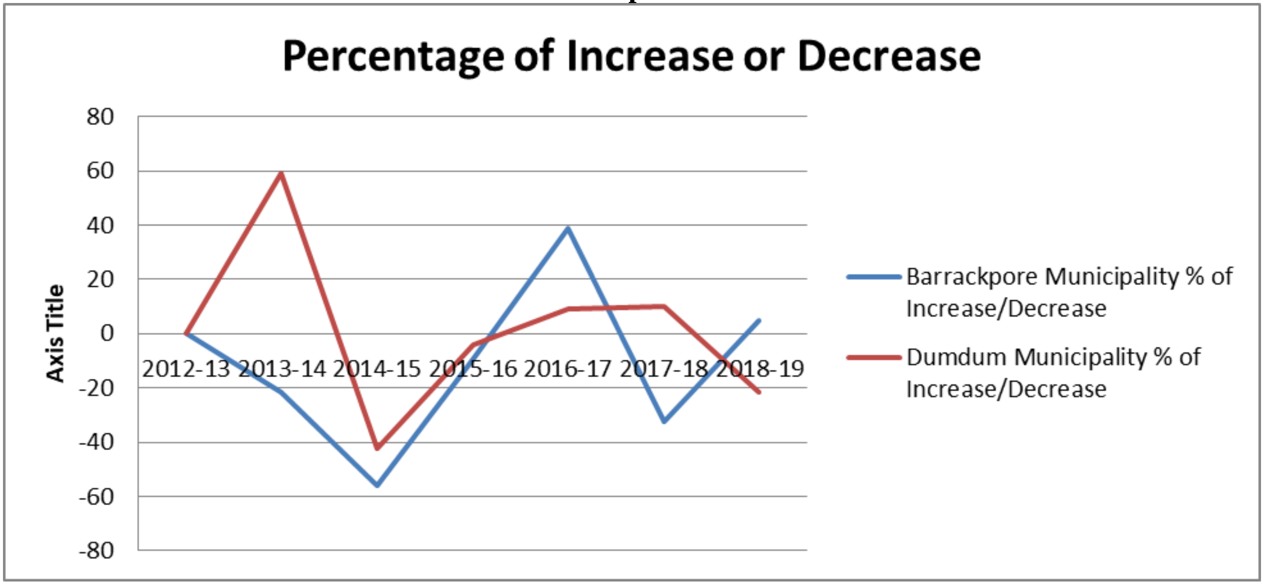
Graph-1



Source: Graph edited from Table-1

In case of Barrackpore municipality, from the year 2013-14 to 2015-16 percentages of interest earning has been decreased by 21.76, 55.93 and 9.13 respectively relating to the previous year 2012-13 to 2014-15. But 2016-17 interest earning has been increased by 38.89 percent relating to the previous year 2015-16, again in 2017-18 it has been decreased by 32.30 percent relating to the previous year 2016-17, whereas 2018-19 it has been increased just by 4.76 percent. In another hand in the year 2012-13, Dumdum municipality collected more than 59 percent interest relating to the previous year. However, 2013-14 and 2014-15 the percentage has been decreased by 42.29 and 4.32 respectively. In 2016-17 and 2017-18 percentages has been increased by 9.29 and 10.17 respectively, but in 2018-19 it has been massive declined, it was 21.38 percent relating to the previous year 2017-18.

CONCLUSION

In view of the above discussion that the interest income contributed more than average 9 and 4 percentage of income in own source revenue in case of Barrackpore and Dumdum municipality respectively. But the graph of interest earnings has been showed a negative picture; year by year it has been reduced sharply. However municipalities more depend on government grants in spite of their own source of revenues. As a result developmental activity will be hampering in future. In India, three tier government has been act like supplement of one another and local government i.e. municipalities and panchayats are the intermediaries of state and central government. Most of the state and central funds are transferred to the municipalities' bank account, and they have been earned some interest against those funds but after the implementation of DBT schemes the interest earnings are minimum by the municipalities. As a result collection of own source revenue were badly affected. Local governments should review those reason to shortfall the interest earning in future.

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