UNIT 10 SOURCES OF FINANCE AND RESOURCE MOBILISATION

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10.0 OBJECTIVES

After reading this Unit, you will be able to:

• explain the need and purpose of financial management and its application in libraries and information centres;

• identify the characteristic features of service-oriented and not-for-profit organisations, and the circumstances under which financial management system has to operate in libraries;

• describe the sources of finance for different types of libraries and ways of mobilising finance for libraries; and

• discuss the major categories of expenditure, principles and classification of library expenditure.

10.1 INTRODUCTION

Since money is most important input resource for any enterprise, proper management of funds is necessary to achieve the goals of the organisation. Libraries and information centers are no exceptions. They also need substantial financial resources almost on a continuous basis. No study of an important public activity like library services can be complete and fruitful unless it also covers
financial aspects. A basic knowledge of library finance, library expenditure, budgeting and accounting is, therefore, very important for any librarian or a student of library science. Hence, there is no need to over emphasise the need for financial management skills among library and information professionals. On the other hand, it is considered that the economic management of libraries and information centers is the most neglected area in library management. There is a general lack of ‘financial literacy’ among librarians. This is despite the fact that in recent years, tremendous economic and financial pressures are mounting on libraries. The way finance is managed in libraries is more akin to that of other not-for-profit service organisations, that too those in welfare economy than profit making enterprises.

Libraries are not revenue earning institutions. Most of them are service components of academic and other institutional bodies. Hence, they have a special obligation to manage their finances with great care and judiciousness. Public library service is generally free because it is supported by public funds, either through special grants from the government and/or through a library cess. The importance of the provision of a continuous flow of adequate finance to libraries cannot be exaggerated. A few principles are required to be understood, as finance is also an instrument of control and evaluation.

### 10.2 FINANCIAL MANAGEMENT

Financial management is not just managing cash or providing funds. It is the study of the principles and practices involved in financial operations of an institutions, industry or state. ‘Finance function’ is the task of providing funds needed for the enterprise i.e., procurement of funds and their effective utilisation. It deals with the problems and procedures of acquiring, distributing and effectively utilising funds, balancing of revenues and expenditure and accounting of the entire transactions for better control and evaluation. In other words, important phases or components of financial management are:

- Financial planning
- Forecasting of receipts and disbursements
- Realisation of funds and revenues
- Allocation of funds
- Utilisation of funds
- Financial accounting
- Financial control
- Financial auditing

The task of finding money, investing funds, managing property and getting the sanction for the budget and all other related matters of finance are the responsibility of the central executive authority of the public library system or the parent organisation to which a particular type of library belongs. However, the library has a major share of responsibility in estimating its own financial requirements, preparing a budget for its functions, activities and programmes, managing the funds appropriated and spending within the specified period, maintaining accounts, and finally preparing a report.
Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

1) What do you understand by financial management and what are its components?

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10.2.1 Principles of Financial Management

For effective financial management, knowledge/understanding of some basic guiding principles of financial management is necessary and useful. The principles of financial management are:

i) Effective control

ii) Simplicity

iii) Regularity and farsightedness

iv) Economy

v) Flexibility

i) Effective Control: Financial management can work efficiently only when controlled properly. The method of financial control should be simple and easy. Control is also necessary for the economical use and channelisation of resources so that there is little wastage and the limited financial resources could be put to maximum use.

ii) Simplicity: Procedures for financial management should be simple and easy to operate. Simplicity results in efficiency and economy.

iii) Regularity and Farsightedness: Financial management programmes should have a typical timetable so as to acquaint everybody with what s/he is expected to do at a particular point of time. For example, in the preparation of the budget for a library, inputs should come from the heads of sections who would in turn expect cooperation from their staff. The preparation of budget would be time-bound and submitted to the authorities on time so that the budgetary sanctions could be obtained in time to operate it. Similarly, since payment towards subscriptions to current journals should be sent to the publishers during a particular time of the year, the required fund should be readily available by that time. Sticking to a timetable facilitates advance thinking and preparation. Not only present needs but also future requirements should also be kept in view when making provisions for finance.

iv) Economy: Economy should be affected in any activity, more so in financial matters. All precautions should be taken to avoid unnecessary expenditure and wasteful use of scarce finances.
v) **Flexibility:** Financial management should keep in mind the virtues of flexibility/elasticity so as to adjust itself according to circumstances. Only then it can be successful in times of emergency and crisis. But this does not mean that one should take undue advantage of its flexible nature. There are provisions and practices in utilising or diverting funds appropriated for a certain item of expenditure to the purchase of other items like books or equipment. But this flexibility should be within the framework of financial rules and procedures. This type of adjustment usually is done at the fag end of the financial year when centralised funds are available in other items (or heads).

While above principles are useful in operating and managing finances in libraries, there are statutory financial rules and procedures laid down by the executive authorities and therefore libraries have no option but to follow such financial rules as well.

There are other related fields and issues of financial management, library and information professionals need to be kept in mind. They are cost accounting and economics (particularly welfare economics), various tools and techniques of financial management, economics and cost accounting like funds flow analysis, ratio analysis, break even analysis, operating and financial leverages, financial forecasting, capital budgeting, economic theory, theory of production, costing, etc. as they have adequate scope for application in library and information centre management.

In practice, as said before, economic management of library services is the weakest area of library management. Little is done to prepare a model and bring about economic management of library services within a system of financial management. Libraries are generally not independent entities and hence financial management and accounting systems of libraries are usually part of larger (parent) organisation. Financial responsibilities usually rest with head of library (librarian) and/ or accounts division of the organisation.

**Self Check Exercise**

**Note:** i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

2) State the principles that govern financial management.

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10.2.2 Financial Management in Service-oriented and Not-for-Profit Organisations

Libraries and Information centres are paternalistic, service-oriented and not-for-profit (NFP) organisations. Financial management in such organisations is more complex and challenging than in profit-oriented organisations. Money management in service-oriented and NFP organisation involves systematic planning, getting funds, judicious spending of funds and meticulous accounting.

There are certain difficulties in financial management of service-oriented and NFP organisations. Some important characteristics of such institutions together with difficulties are discussed below. The problem becomes more acute if budgets of such institutions are not planned as part of planning of parent body and if they worry more about accounting than planning.

Among the important characteristics of service-oriented and NFP organisations, the labour intensive as against machine and technology intensive nature of profit-making organisations, lack of inventory (as they will have no inventory of services), dominance of professionals, difficulty in inspecting and measuring the quality of service in advance of delivery (i.e., before rendering the service), etc. are important. Lack of profit measure is quite typical to service-oriented and NFP organisations. Profit-oriented organisations measure their output by amount of revenue earned based on prices charged for goods and services sold. For individual profit centres, revenue is measured by transfer prices. Service-oriented and NFP organisations either should device similar monetary measures of output wherever possible or rely on non-monetary measures. By and large, the output measurement is a practical problem and also a challenge in service and NFP institutions. There is no single generally accepted criterion for measuring success of such organisations. Multiple objectives, lack of relation between costs and benefits and difficulties in measuring performance and comparing performance of different units of the same organisation are some peculiarities of service-oriented and NFP organisations. Due to dissimilar functions, the organisational units cannot be compared in service-oriented and NFP organisations. In the absence of monetary output measures, certain non-monetary measures could be employed by service and NFP organisations. These non-monetary output measures can be classified as subjective or objective, discrete or scalar, quantitative or qualitative. Some important non-monetary output measures are:

i) Results measures
ii) Process measures
iii) Social indicators
iv) Inputs as proxy output measures

Libraries and information centres have not given adequate attention in devising output measurements. In addition, there appears to be no direct relation between costs and benefits in service organisations. Market forces play a less significant role in service-oriented and NFP organisations. Due to lack of shareholders, there appears to be differences in ownership and power. Consequently there is a tendency for service-oriented and NFP organisations to be political organisations.

Historically, the cost accounting and other control techniques were developed for manufacturing (i.e., profit-oriented) companies and hence they are less
applicable to service-oriented and NFP organisations. Inadequate management controls have become a tradition in such institutions, which are usually relatively small and operate on a single location.

Self Check Exercise

Note: i) Write your answer in the space given below.
   ii) Check your answer with the answers given at the end of this Unit.

3) Enumerate characteristics of service-oriented and not-for-profit organisations.

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10.3 SOURCES OF FUNDING/ FINANCE

The economic and financial pressures are mounting on libraries due to (i) increased cost of information materials; (ii) ever-growing and diverse demands; (iii) adoption of new technology; (iv) need for new space and infrastructure to cope up with new environment; (v) increases in wages and salaries; (vi) interlibrary loan and resources sharing; (vii) new programmes and projects to justify the existence of library.

Library finance includes both the funds appropriated to a library and its expenditure. Libraries depend heavily on continuous supply of funds for organising its activities, programmes and services. In dealing with this, ensuring a continuous supply of funds not merely on a yearly basis but over a period of time, i.e., three or five years are very important. Finance plays a very significant role in the organisation and management of any institution, more so in case of libraries which have to acquire and build their collection on a continuous basis throughout the year and even longer. With the increasing costs of books and journal subscriptions, it would be impossible to plan a collection development programme consistent with the needs of users, without an ensured supply of funds. While appropriations are made for the acquisition of books and journals, funding bodies, quite often, overlook or underestimate the necessity of funds for processing the acquired materials and make them available for use by competent persons. Further, regular flow of funds ensures the rhythm and tempo of the user services. These services have to run on a continuing basis. Unless adequate funds are provided for all these activities, libraries will either operate sub-optimally or remain ineffective.

The financial support given to libraries is of two types: i) recurring and ii) non-recurring. The recurring grants are generally given for the purchase of books and periodicals, maintenance of regular services, and for anticipated contingent expenditure. The non-recurring grants are given for specific purposes like construction of library building, purchase of furniture and equipment and sometimes for special collections. The third type of adhoc grant is given on special occasions on recommendations for specific purchase.
Different types of libraries receive funds from different sources, though some sources such as government grants are common. The greatest percentage of operating funds increasingly comes from public fund raised through taxes. A judicious estimation of funds required has to be done well in advance as funds are required on a continuing basis.

Various sources of funds for libraries can be broadly grouped as follows:

i) **The main source of finance for any library is regular grants from parent body or National/ State Government** (some percentage of budget and/ or public fund raised through taxes)

ii) **Local library cess** and support from municipal and other provincial authorities.

iii) **Adhoc grants** from other departments/institutions (public fund), private national agencies, endowments and charitable institutions and certain foreign or international support.

iv) **Fines and miscellaneous sources**: Some libraries impose fines on late return of books as well as for loss or misuse of library cards and books. Income from this source is very meager. As a matter of fact, it cannot be considered as a source of income, because the aim of fine is not to raise revenue but to compel the user to return the borrowed book in time and not to damage or lose it during her/his possession. Moreover, in some situations libraries may not have authority to re-appropriate amount collected as fine or overdue charges for other purposes. In addition, the effectiveness of imposing fine is questionable as it may create ill feelings among users and discourage use of library. Hence, the policy of levying fine itself is debatable and possible revenue is offset by potential bad effect on public relation. Miscellaneous sources may consist of money received by the sale of old library materials like waste paper, used / withdrawn books, equipment, furniture, etc.

v) **Self-generated fund (Fee-based services)**: Libraries usually render their services on a nonprofit basis. Charging for library services is fairly a recent phenomenon. Fees, subscriptions, sale of service and miscellaneous revenues earned by the library are ad hoc, non-recurring and often meant for specific purposes with restrictions on reallocation and use. Normally, such (limited) funds are added to the general fund of the parent organisation for allocation through normal budgeting procedure.

It is generally objectionable to charge for library services when the mission is to provide free library services to all. Otherwise, public libraries in particular loose their sanctity. It is debatable that libraries can charge for their services, as charge on traditional services may deter use of library. If public libraries charge for all services and membership, like a private library, one may even demand that it has to generate the entire budget required to run the library. Hence it is necessary to continue to provide all traditional library services free of cost. Any fund generation from fee-based services is only restricted to only new services and the fund so generated should be considered as a supplementary fund. Hence, enrolment or membership fee, caution deposit, book lending fee, usage fee are to be considered with extra care depending on the type of library and the mission of the library. However, nominal overdue charges (library fine), recovery charges for not returned
books and charges for duplicate cards, etc., are well accepted in most circumstances. Sale of withdrawn books, used equipment and furniture, old newspapers, etc., are obviously realised for library fund. Similarly, charges for photocopy service and computer printouts, Internet charges, etc., are grey areas where library can price appropriately to raise its revenue.

The real impact of fee-based services should be in the areas of new services. Increased use of a particular service and changed need among users provide clue for new services. Introducing new services involves set-up cost, but services far outweigh the risk as such new services not only generate revenue but also provide many intangible benefits like enhanced public relations and boosting library image. Hence the primary motive of fee-based new services should not be generating profit or fund but gaining these intangible benefits. Some of the fee-based services could be access to research experience and services, online searching of international databases, document delivery, local and external inter-library loan delivery, internet and other resources charges.

Fee-based new services are not only required to be carefully and strategically planned, avoiding duplicating local services or competing with other local information systems but also promoted with appropriate marketing methods. Pricing of these services is a tricky issue as professional research time, local interlibrary loan and document copying, verification of citation information, translation and other documentation services, copyright charges, taxes and tariffs, staff time, etc., are involved. In addition to extensive marketing and pricing structure, care should be taken not to violate lease agreements, licenses and copyright restrictions, service tax, etc.

vi) Gifts and donations (Mobilising library finance): In these days of pressing need for money to run library services, all possible sources of funding need to be explored and if necessary, lobbying for fund taking library clientele into confidence is not wrong. Apart from grants from Government, donations and gifts, various fund generating sources have to be tapped and fund raising activities and campaigns have to be launched. One such example is organising book exhibitions and other sales by “Friends of the library group” in the premises. Gifts and donations are excellent source of supplementing funds for special projects. Citizens are often willing to make significant donations to cover part or all the costs of a new or remodeled library building. However some care should be taken in handling gifts and donations. Firstly, library must have exclusive control over all funds collected, donated or appropriated as library fund. There should not be unusual riders on such funds, i.e., gifts and donations should be transferred unconditionally to treasurer of parent organisation or local authority or a public depository like bank or to financial secretary of the committee or Board. Secondly no gift, donations or grant from charitable institutions be used to justify reducing or replacing the community’s commitment to public funding. Otherwise, library runs the risk of disenfranchising and benefactors-donors may cease according grants to library if they see that their efforts are resulting in reduced public funding for the library instead of improving the resources.

Gifts and donations need not be in cash. Any donation of building or other investments are much better as they provide fund more regularly in the form of rent on space/ accommodation and interest on investments.
10.3.1 Academic Libraries

a) **University Libraries:** University libraries receive their regular funds from the respective universities and special grants from both the University Grants Commission (UGC) and the State Governments. The UGC grants are mainly plan grants, whereas the State Government grants are mainly non-plan grants. However, government grants are not given to the libraries directly, but government gives grants to the university and then the university allots to the library the necessary share out of the same. The University Grants Commission grants are mainly of three types, viz., recurring, non-recurring, and ad hoc grants.

Few university libraries charge fees from their student members for the use of the library. A charge or fee for library use is not made without protest from users. These days there is a growing feeling that the university should provide library services free of charge, just as it provides lecture rooms, laboratories, and other facilities. Pros and cons of fee-based library services are already discussed on previous pages.

b) **College Libraries:** A question often asked as “how much does it cost each year to run a good library?” The amount will vary from college to college, depending on the nature of the curriculum, the quantity and quality of services expected, and the quality of the present collection. The total student strength in a college is another criterion to be taken into consideration while allotting funds for college library. The problems of financing a library of an established college are different from those of a new college. The needs of the former are confined to acquiring materials to remedy weaknesses and to keep the collection up-to-date, whereas the latter must build up a complete basic collection.

There are three main sources of funds for college libraries. The principal source is the allocation from the current operating funds of the college. Whether the college is public (government) or privately controlled matters less in this connection than the amount of additional money the library may need during any one budgetary year. Sometimes a part of the ‘Amalgamated Fund Collection’ is given to the college library for purchase of reading materials. Occasionally some portion of the contingency grant of the college is made available to the library by the Principal. A second source of income for college libraries is grants, individual gifts, and endowments. But this is not so very popular in India. A large number of college libraries throughout the country receive grants from the University Grants Commission. Other sources of income for college libraries are subscription/membership fee charged from the students, and annual recurring and non-recurring grants from the State Governments or the governing bodies of the institution.

c) **School Libraries:** Promoting good library service in schools depends very much on finance. In the case of primary schools, lower fee rates for library services can be fixed as there will be less expensive books needed for students of lower classes. It is necessary that the entire library fee collected from students should be spent exclusively on books and equipment.

At present there are no fixed norms for the provision of finances to school libraries in India. The library fund of school should preferably comprise of
fee collected from pupils, equal contribution from the management, matching contribution from government or local body, other gift or special grant that may at any time be received specifically for the library and donations from public.

The State Government or any education authority administering the school should meet the initial expenditure on setting up of the school library including cost of new library buildings and initial expenditure on fittings and books covering the basic stock needed as a nucleus for library activities.

**Self Check Exercise**

**Note:**

i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

4) What are the sources of finance for university libraries?

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**10.3.2 Public Libraries**

Libraries in general and public libraries in particular are expenditure-inclined (or intensive) and ever growing organisations with no (or least) revenue earning capacity but with recurring nature of service and hence recurring demand for ever increasing funds. Hence a permanent assured source of income with enhanced flow of money is required. UNESCO Public Library Manifesto (1994) prescribed that the local or national government should wholly fund public libraries. Historically public libraries had the fortune of generating funds from government sources and patronage of aristocracy. The learned scholars, trusts and NGOs have always been the main source of funds for public libraries. However, during 20th century, particularly after independence, development of public library is regarded a State subject in India. Hence financial resource through levying of cess as per library legislation of State or/ and grant from State Government has become main source to public libraries. In addition, many public libraries are continued to run by voluntary organisations with or without some subscription fee. With the changed circumstances and environment particularly service orientation and diverse functions expected from public libraries, there is a greater need to adopt innovative and new approaches to explore and generate financial resources from different and new sources. The new circumstances are such that aids/assistance may not uniformly come forth as expected during financial crises and requirement may vary from year to year. Hence it may not be safe to exclusively rely on traditional sources of revenue.

Public libraries need to tap all possible sources like cultural associations, private foundations, commercial firms, philanthropists, trade unions, publishers’ associations either directly from such institutions or working in co-operation with fund raising associations and organisations like ‘Friends of the Library Group’,
NGOs, important personalities of the locality and others. A strategic plan with well-articulated mission of the library to match the donor’s needs or the community requirements has to be developed for the purpose.

In addition, RRRLF and other Government departments and agencies are well known sources of funds for public libraries in India. Sometimes sources from abroad and its specialised agencies, regional organisations, bilateral aids as well as national and international organisations like UN may also provide fund in cash or kind.

Public libraries should not fall behind in generating fund from fee-based services particularly charging for non-traditional new services like demography, product, trend and travel reports, computer prints, reference service, extension classes, training programmes, internet-based information services on health, travel, education (scholarship), organising exhibitions, etc.

Having relegated the responsibility of running public libraries to local community, the Government should not escape the responsibility of providing adequate financial assistance. Interestingly, the norm in USA is that Local Government, State Government and Federal Government respectively contribute 60%, 25% and 15% of budget to public libraries. Unfortunately in India, there is no national policy on library and information services and no Union library legislation, and contributions of both Central and State Governments to public library funds have been too low. Transferring ‘library’ from State List to local bodies by constitutional amendments (73rd and 74th, 1992) has not lead to any improvement in the financial support to public libraries. The National Commission on LIS proposed in 8th Five Year Plan is not yet a reality. However, public libraries can seek some financial support from five year plans, RRRLF, grants from Department of Culture (which runs certain libraries) and grants from National Archive of India (for preservation of rare books).

In fact as early as 1958, K.P. Sinha Committee recommended creation of Block Library Fund and Municipal Library Fund through cess, and both Central and State governments should contribute equal amount with provision to gradually increase state contribution to three times the cess amount. On the other hand, more recently in 1985, Prof D.P. Chattopadhyaya Committee on National Policy of Library and Information Services recommended for 6-10% of education budget for libraries and central government to provide fund under plan expenditure. In addition, it is also recommended that public libraries particularly in rural areas should draw resources from other official agencies like National Adult Education Programme, Agricultural Extension Programme, Distance Education Programme, etc. working at that level. It is also suggested that industrial organisations should also provide finance for libraries. It is unfortunate that compared to the target of 6-10% of education budget, States spent far less than 1% of education budget on libraries. Similarly, compared to suggested standard of more than Re. 1 per capita (1988-89), most states spend much less than that even after 20 years (despite substantial reduction of buying power of Rupee over 20 years). As mentioned earlier contributions of both central and state governments to library fund have been too low.

The main sources of public library revenue are subscriptions, library cess, grants from government and endowments. Considering library subscription as a source
Financial Management

of fund is widely disputed. An equally forceful opposite view is that subscription
defeats the whole concept of free public library service advocated by Ranganathan.
The report of the Advisory Committee for Libraries, Government of India (1957)
also supported the inadvisability of considering subscription as a source of
revenue. The Advisory Committee describes such subscription libraries as
‘stagnating pools’. Yet, after half a century, a bold and new review of the situation
is required in the light of privatisation, private-public partnership and ‘pay and
use’ philosophies of the time.

So far, Nineteen states in the country have public library legislation and run public
libraries under the statutory system which is not uniform. Tamil Nadu, Andhra
Pradesh, Karnataka, Kerala and Goa have provision for raising library cess as a
surcharge on certain taxes. These states have what is termed ‘pure form’ of
statutory system where Local Library Authority (LLA) created by the Act receives
cess, grants from government, special grants for special purposes, gifts,
contributions and income from endowments, fees, fines, etc. and has the
responsibility to run libraries and provide library services. For example, Tamil
Nadu and Andhra Pradesh Library Acts have provided for a cess in the form of
surcharge on land and property tax at the rate of six per cent. The Karnataka Act
has provided for a library cess in the form of surcharge at the rate of three per
cent (later increased to six per cent) not only on land and house tax but also on
octroi duty, vehicle tax and professional tax. In addition to the library cess,
Karnataka public libraries receive a grant from the government equivalent to
three percent (later six per cent) of the total land revenue collection. Other states
have what is termed as ‘mixed form’ of statutory system, where no library cess is
proposed, but the respective governments have made provision for grants-in-aid
for public libraries. In addition to substantial grant-in-aid, these libraries called
by different names like ‘Subscription Libraries’, ‘Recognised Libraries’, ‘Grant-
in-aid Libraries’ and ‘Affiliated Libraries’ are allowed to charge subscription
and run by voluntary organisations with gifts and donations. Rest of the States in
the country have no legislation (not bound by law/ statutory system to provide
public library services), but make direct government efforts as well as provide
grant-in-aid to voluntary organisations running public libraries. Experience shows
that library cess alone cannot be sufficient to meet the continuously growing
needs of public libraries. Besides, the taxable capacities of various local areas of
LLA differ significantly, thereby making standard and uniform public library
service throughout the country a difficult task.

Just like education, public health and other welfare economy measures, ideally
public library service, which is declared free to citizens, should be totally
supported by regular budget grants from the government. Unfortunately, in many
countries including India, this is not the position. As a result finances for public
libraries have become inadequate. Only library legislation at the national level
can change things for the better. It would be proper for the government to provide
for initial expenditure, while recurring demands of the libraries should be met
from the proceeds of library cess, etc. Moreover, the local authorities should be
encouraged to collect more funds by giving them matching government grants.

Endowments, charitable trusts and private benefactions could be another source
of public library revenue. In countries like USA this is a common feature, whereas
in India it is rare. The financial demands of libraries are recurring in nature,
whereas funds from endowments are not so. Hence, endowments and

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benefactions, though welcome, should not be taken as a permanent or continuing and adequate source of income. Endowments can best be used for erecting library buildings, acquiring furniture and fittings, etc.

Other sources of public library revenue are fees and fines, gifts in cash or kind. The income from these sources is generally very meager, and cannot be considered as a significant source of revenue.

10.3.3 Special Libraries

Special libraries get their funds from appropriations made by their respective parent organisations. Whenever the parent body takes up a new project or a programme, which needs library and information support, adequate finances should be provided to the library to set up additional/special support facilities. Special library is expected to ask for funds for any additional or special services, which are usually examined before funds are provided for such services. In addition, special libraries obtain ad hoc grants from governmental agencies for specific purposes. Of late, special libraries have been seriously considering the ways and means of generating part of their own resources.

Self Check Exercise

Note: i) Write your answer in the space given below.
   ii) Check your answer with the answers given at the end of this Unit.

5) State how public libraries get their funds.

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10.4 IMPLICATIONS OF ICT DEVELOPMENTS: E-PROCUREMENT AND E-DOCUMENTS

Stupendous growth of ICT (Information and Communication Technology) during last two decades has touched every walk of life including libraries. With the advent of the Internet, e-commerce has been a great success. This development has made two broad implications on the financial management of libraries and information centers. Firstly, the way procurement and money are handled — received, paid or transferred — has substantially changed to become simple and almost instantaneous. Libraries could send their orders for documents by e-mail as well as they are allowed to search, identify the documents and order electronically by downloading order form from the websites of many international agencies. There is no need to enter bibliographic information or personal/institutional details in such a process. Till then, it use to take months for procuring publications of societies and obscure publishers, standards, patents and technical reports and extremely urgent articles by making advance payment through bank drafts and sending the same by airmail. Along with e-mail ordering, wire transfer
of money has reduced the delay to some extent. But the real instant ordering and paying on the net for effective e-procurement necessitates use of credit cards or e-cash mode and it is still rare in Indian libraries. The parent organisations (including government) and their accounts departments are still suspicious about possible miss use of credit cards for electronic payments (or e-transfer of money) on the Internet and libraries are not provided with credit cards. As a result tremendous saving in time, efforts and cost incurred by e-procurement is not being availed by large number of libraries.

The second implication of ICT development is concerned with digitisation and procurement of e-documents. More and more libraries are becoming digital at least hybrid in terms of their collection. In fact, acquiring/ creating or subscribing to digital collection has dramatically changed the collection building process of libraries and information centers. The outright purchase of an e-document (with full rights to use and share like a printed book) is only a minor part of acquisition of e-documents. Large part of digital collection is not owned but accessed for a limited period under totally new terms of subscription or lease agreement. Such agreements of accessing digital libraries impose restrictions on repeated use for a longer (indefinite) period and for sharing with others. In this scenario, resource sharing and consortia arrangements add further complexities as member libraries need to collectively pay for such subscription to digital collections/ libraries. Normally publishers allow subscriber to access e-collection either through a password or make it IP address enabled access. Sharing an e-document not owned is difficult and sharing a password is illegal. Having realised that there is no control over possible sharing of password by libraries, over 95% of publishers offer only IP address enabled access to their e-content (like e-journals), which drastically restricts sharing with other libraries. In addition, lease agreements of such online subscriptions are one-sided and put-forth many stifling conditions on libraries. Pros and cons of such lease agreements are beyond the scope of this Unit. One important point from the angle of financial management of libraries is that when the subscription ends, library will have no access to back issues of the journals for which libraries have earlier paid. Further it is very difficult to account for collective/ collaborative payments in consortia mode. Lower usage, saving on staff time and geographical location of member libraries are favourable aspects in resource sharing and consortia. However, such joint collection development and priority access of inter-library loan provide savings if consortium deliveries can be achieved at a lower cost than alternative sources of inter-library-loan and document delivery. Further, assessment of potential utility or actual use of such e-collection is quite difficult as statistical data pertaining to access/ click/ use provided by publishers are often hyped and misleading. Even costing of e-journals is often misrepresented by bundling together a large number of e-journals of the same publisher without option to eliminate unwanted/ irrelevant ones. In some particular circumstances, the entire payment for consortia subscription is made by another (usually government) agency leading to total lack of assessment of need and cost benefit analysis.

**Consortia payment:** Budget and funding are thorny issues in consortia mode. As explained above, member libraries are required to transfer part of library budget for consortium and yet they will have no control over the transferred amount. Consortium libraries themselves need to have a legal entity with permission and authority to deal with such pooled money. Though resource sharing and library consortium are considered as possible solution to the financial
Sources of Finance and Resource Mobilisation

Lastly, some typical general problems and issues of fiscal management in libraries are briefly listed below.

1) A large part (2/3 or more) of a library budget is consumed by reading materials.
2) The average raise in prices of reading materials is always above the average inflation rate.
3) Prices of serials and journals increase much more rapidly than that of monographs.
4) Some of grey or semi-published literature like theses, technical reports and standards are abnormally costly even though photo copies are normally supplied to libraries.
5) The value of Rupee is steeply falling against hard currencies like US Dollar, Sterling Pound and Japanese Yen.
6) Marginally increased budgets are unable to match the devaluation and increase in prices.
7) Even during the periods of tight budgets, it is the reading materials budget of a library is more vulnerable than salary and other maintenance budget.
8) Allocation of reading materials budget among different subjects or different types of documents is becoming increasingly difficult.
9) The unconfirmed prices and unexpected increase in prices of reading materials further complicate the fiscal management (for example, supplementary invoices for additional volumes of journals).
10) Inconsistent conversion rates are applied by manipulating the date of billing.
11) Increased postage also adds its might to the problem.
12) The process of encumbering the available meager budget and moving ‘monies’ back and forth in a manual system can lead to errors and too broad approximations of expenditures, commitments and available balance funds. The process of encumbering funds is further complicated by fiscal policy of parent organisation normally bound by the artificial year called financial year. For these reasons and also sudden windfalls during end of financial years constructing budget and creating a monitory plan is made difficult.

10.5 LIBRARY EXPENDITURE PLANNING

You now have an idea of how a library gets finances for running its library services. Expenditure is the second important aspect of financial management. Library
expenditure occupies the same place in the study of financial management as consumption does in the daily life of an individual. As consumption is the end of all economic activities, so also, library expenditure is the end of all financial activities of a library.

10.5.1 Importance of Library Expenditure

Just as you spend money on your books and studies, so do the libraries spend money on the books and periodicals, readers’ services, references and bibliographical services, documentation and information services, etc. The objective behind all these is the supply of the right document to right reader at the right time. The library expenditure is generally undertaken to satisfy the intellectual requirements of the readers and provide those documents which the readers in their individual capacity cannot and do not want to purchase. Besides, no individual can purchase all the literature which comes out of the printing presses of different countries, on different subjects, in various languages, and in diverse forms. The only agency which can acquire, process and make available all this literature to readers is the library. All this means spending money and more money.

10.5.2 Nature of Library Expenditure

There are three major characteristics in the nature of library expenditure:

a) Library is a spending institution: Libraries, unlike many government departments, are not revenue-fetching agencies. On the other hand, libraries are spending institutions, and they participate in the nation-building activities. The money spent by the library is a long term investment in human capital.

b) Library is a growing organism: The library trinity-documents, readers and staff - always grows. It implies that the requirements of the library will always go on increasing day-by-day. All this means more expenditure.

c) Library expenditure is recurring: Libraries are not only spending and growing institutions, but they are also permanent bodies. In an era of educational advancement, library services will have to maintain a continuous rhythm to cope up with the academic requirements of the clientele. This means that the library expenditure is recurring in nature.

10.5.3 Principles of Library Expenditure

a) Principle of maximum aggregate benefit: The library exists for the service of different types of readers. Therefore, as a librarian, you should be neutral, and should see that no particular individual is specially benefited by your expenditure policy. You should plan your library expenditure in such a manner that majority of readers derive maximum benefit of library use.

b) Principle of advance planning: The library expenditure should be planned in advance and a proper estimate should be made for different items so that adequate and balanced revenue may be allotted to different heads. Orders should be placed in advance so that the needed materials are acquired in time. The Librarian should avoid last minute purchases.

c) Principle of equitable allocation: The library funds should be equitably allocated for spending on different types of reading material covering various
subject areas. For example, books on science and technology are costlier than that of other language books. Costly reference books become out of date faster in some subject areas when compared to others. All such factors are to be taken into consideration while spending money for library use.

d) Principle of economy: It means that you should not spend more than the necessary amount on any item, and should not exceed your sanctioned grant. Unnecessary duplication should be avoided, because the extra amount thus saved could be better spent on purchasing new alternative titles covering additional subject areas.

10.5.4 Classification of Library Expenditure

Generally speaking, money spent on building, costly equipment and furniture is shown against capital expenditure, and other items which occur almost throughout the year like books and periodicals, stationery and postage, binding and contingency, salaries and wages, etc. are shown against current expenditure. However, you can classify library expenditure according to different heads, viz.(a) salaries and wages, (b) binding,(c) stationery, (d) postage, (e) contingency, (f) books and periodicals, (g) furniture, (h) building, (i) equipment, and (j) publications.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

6) State the major items of expenditure of libraries.

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10.6 SUMMARY

This Unit deals with the financial management of libraries. Financial management in service and NFP organisations has several problems attributable to the characteristics of such institutions. Libraries, being service institutions, seldom earn revenue and hence, have to be funded almost entirely by their respective parent organisations or by governments in case of public libraries. Adequate and continuous supply of funds is necessary to sustain library and information services.

There are number of different sources like regular grants from parent organisations, ad hoc grants from other organisations, grants from endowments, fees, subscriptions, sale of service, etc. through which finance for libraries flow.

Libraries spend their funds on books and journals, salaries and allowances of their staff, development of library, documentation and information services, building, equipment, furniture, etc. The expenditure is normally channeled
Financial management is the study of principles and practices involved in financial operations of a library. Its scope includes acquisition, distribution and utilisation of funds, balancing revenue and expenditure, general control and evaluation of financial matters. Important components of financial management are:

i) Financial planning
ii) Forecasting of receipts and disbursements
iii) Realisation of funds and revenues
iv) Allocation of funds
v) Utilisation of funds
vi) Financial accounting
vii) Financial control
viii) Financial auditing

2) The principles that govern financial management are:

i) Effective control
ii) Simplicity
iii) Regularity and farsightedness
iv) Economy, and
v) Flexibility

3) Service-oriented and not-for-profit organisations have certain characteristics distinct from those of profit-oriented organisations. They are as follows:

i) Services cannot be stored and hence, there is no ‘inventory’ in service-oriented organisations. Services unsold are services lost.
ii) They are labour intensive organisations.
iii) There is a dominance of professionals in such organisations.
iv) Service-oriented organisations face the difficulty of measuring the quantity and quality of services rendered. Success of these organisations depends both on how much service is rendered and how well rendered.
v) Quality of service cannot be inspected and measured before rendering.
vi) There is no single criterion (like profit) to measure success of service-oriented organisation. Multiple objectives, lack of relation between costs and benefits and difficulties in measuring performance and comparing performance of different units of the same organisation are some peculiarities of service-oriented organisations.

vii) Market forces play less significant role in service-oriented organisations.

viii) Service-oriented organisations tend to become political organisations due to lack of shareholders and differences in ownership and power.

ix) Inadequate management controls has become tradition in such organisations as cost accounting and other control techniques are believed to be for profit-oriented organisations.

x) They are relatively small and operate usually on a single location basis.

4) The sources of finance for university libraries are:
   i) Grants from the respective university budget
   ii) Special grants from the University Grants Commission
   iii) Library fees
   iv) Fines or overdue charges
   v) Sale of publications, etc.

5) Public libraries get their funds from:
   i) Library cess collected in States where Public Library Acts are in force.
   ii) State Governments provide matching grants equal to the amount collected by way of library cess.
   iii) In some States, the entire funds come from Government grants.
   iv) Member-subscription is also sometimes a source but is very negligible.

10.8 KEYWORDS

Cost Accounting : It is a process of accounting for cost by relating expenditure to cost centre and cost activities. In management accounting, cost accounting establishes budget and actual cost of operations, processes, departments or product and the analysis of variances, profitability or social use of funds.

CBA -Cost Benefit Analysis : The ratio of the benefits of a given project to its cost, taking into account the benefits and costs that cannot be directly measured in Rupee. CBA has been considered as a valuable tool for increasing people’s awareness of the costs and benefits of information and documentation as a production factor and to provide better basis for budgeting and strategic planning.
Financial Management

CEA-Cost Effectiveness: Analysis
A way of finding the least expensive means of reaching an objective or a way of obtaining the greatest possible value from a given expenditure. While CBA seeks to develop standards and criteria for determining how well the existing services of a library meet the requirements of its users, CEA aims at discovering new, improved procedures and devices for providing better services to the users.

Economics
It is the branch of social science that deals with the production and distribution and consumption of goods and services and their management. The study of how the forces of supply and demand allocate scarce resources. Subdivided into microeconomics, which examines the behaviour of firms, consumers and the role of government; and macroeconomics, which looks at inflation, unemployment, industrial production, and the role of government. It is descriptive and concerned with what is and what ought to be. It deals with relationship of inputs to the outputs and eventually to supply, demand, markets, sales, prices, value, utility, etc.

Financial Estimation
Estimating the amount of money required for running services of an institution.

Financial Forecasting
It is forecast of the expected financial position and the results of operations and cash flows based on expected conditions. It involves a systematic projection of expected actions of management in terms of financial statements, budgets, etc. using past records, funds flow behaviours, financial ratios and expected economic conditions in the industry and the firm.

Financial Management
Financial management encompasses the two core processes of resource management and finance operations. It is an element of management dealing with acquisition, distribution and utilisation of funds.

Library Expenditure
Money spent by a library on different heads such as purchase of reading materials, salaries and allowances, stationary, postage, furniture, equipment, etc.

Library Finance
Sources of financial flows and expenditures.

Library Income
Funds which accrue to a library from different sources such as grants, membership fee, endowments, fines, service charges, sale of publications, etc.
Macroeconomics : Industry and national level economic system with the objective of maximisation of profit.

Microeconomics : It is concerned with behaviour of individuals, firms and markets.

Non-plan Grants : Regular budgeted grants given every year.

Non-recurring Expenditure : Expenditure that do not repeat every year (e.g. building, equipment, machinery, etc.).

Plan Grants : Funds made available on projects that go under annual plans, five-year plans, etc.

Ratio Analysis : Single most important technique of financial analysis in which quantities are converted into ratios for meaningful comparisons, with past ratios and ratios of other firms in the same or different industries. Ratio analysis determines trends and exposes strengths or weaknesses of a firm and hence, used for evaluating the performance, setting standard and estimation.

Recurring Expenditure : Expenditure that repeats every year e.g. books, journals, staff salaries, etc.

Welfare Economics : It is a branch of economics that uses microeconomic techniques to simultaneously determine allocative efficiency within an economy. It deals with cost-benefit analysis of the allocation of resources, economic activity, and distribution of the resulting output on a society’s welfare. It provides theories and techniques to analyse operations of NFP institutions.

10.9 REFERENCES AND FURTHER READING


