
Panchayats and Economic Development

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Panchayats and Economic Development

Introduction

There has been a world-wide trend towards decentralisation since the 1990s. Many countries have embarked on the devolution of administrative, political, and fiscal responsibilities to lower levels of government. Dissatisfaction with the prevailing centralised systems of service delivery, transition from centralised planning to market economy, deepening democratic principles, focus on ensuring greater accountability and increasing need to recognise social, economic, and political diversities in different regions within the countries are some of the important reasons cited for this phenomenon. This trend towards decentralisation is seen in countries with federal as also with unitary systems; it has spanned across countries with varying levels of development; it is seen as much in transitional countries and even military dictatorships as in democratic countries (Litvack, Ahmad and Bird, 1998).

One of the principal motivations for decentralising of political, administrative and fiscal systems in developing countries is the belief that this will help to catalyse the process of harnessing the developmental potential and improve the living conditions of the people, particularly, the disadvantaged sections. By 'development', we do not merely mean in the narrow sense of increasing per capita incomes, but in the broader sense of expanding the real freedoms of the people. This requires "removal of various sources of unfreedom: poverty as well tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity of repressive states" (Sen, 1999; p. 3)

The first generation theories argue that decentralisation results in efficiency gains by matching of public services with diversified preferences of the people. The second generation theories advocate decentralisation as it enhances responsiveness and accountability. It is also argued that decentralised public service delivery enhances competition and productivity in public services. Participatory planning at decentralised levels is supposed to create conditions for inclusive growth. In short, decentralisation is seen as a responsive and participatory governance system, a catalyst for accelerating growth and alleviating poverty and enabler for the pursuit of a variety of other developmental objectives including human development. Seen in this wider perspective, decentralisation is not only a means to expand political, social and economic freedoms of the people, but also as enabler of wider choice and freedom in the pursuit of development and therefore, an end in itself. The critical issue is to what extent efforts to decentralise the political, administrative and fiscal systems have actually helped the people, particularly the disadvantaged sections to exercise wider choices and experience freedom.

Whether decentralisation contributes to development or not has been an issue of considerable debate in the literature and positions have been taken based on the individual scholar's predisposition and belief rather than on sound theory or empirical evidence. Many scholars assert inherent merit in decentralisation; it is considered to be a constituent of well being and therefore, an end in itself. Participation of the people in the governments closest to them is supposed to empower them to make decisions on governance as well as in public service delivery.

However, actual empowerment depends on the extent of effective participation. Decentralisation is also seen as an important means to enable efficient allocation of resources, improve governance, accelerate economic growth, reduce poverty, achieve greater gender equity, and empower the weaker sections of society. In contrast, arguments against it are that it weakens the capacity of central governments to undertake macroeconomic stabilisation, that there are efficiency losses due to poor administrative capacity of local governments to undertake the functions assigned to them and there is potential for increased corruption (Prud'homme, 1995; Tanzi, 1996, 2001). After reviewing several empirical studies Martinez-Vazquez Jorge and McNab (2003; p. 1608) conclude, "... (O)ur knowledge of how decentralization affects growth is too limited at the present time to allow us to proffer advice. (T)he dynamic superiority of decentralized over centralized public expenditures is by no means obvious."

In Indian context, however, the issue is not whether or not decentralisation leads to development, but on whether decentralisation makes local governments catalysts of development. The 73rd and 74th constitutional amendments have asserted that decentralisation strategy is imperative for inclusive development of the country. Despite this, many of the states are yet to complete the process of devolving powers to the *panchayats* and in many others, there is hardly any worthwhile participation of the people in the decision making process in *panchayats*. Therefore, the question is not whether decentralisation leads to development or otherwise, but how policy and institutional reforms can be designed and implemented to make the *panchayats* effective catalysts in the developmental process in rural areas. This has to be done by drawing lessons – both positive and negative, from the decentralisation experiences.

The objective of this study is to review the analytical literature on the relationship between decentralisation and development, bring out the impact of decentralisation on economic development from experiences both within the country and worldwide, and identify the preconditions and reforms needed to strengthen and deepen the *panchayat* system to make them catalysts of development in India.

2. Decentralisation and Development: A Review of Theoretical Literature

The arguments for decentralisation are advanced on political as well as economic grounds. The political reasoning for decentralisation is that it takes the governments closer to the people and makes them participate in decision making. It is argued that participatory governance empowers people to participate productively in the market and ensures inclusive development and therefore, it is an end in itself. Thus, inclusive governance contributes to inclusive development and decentralisation is a necessary pre-requisite for inclusive governance. Decentralisation enables the people, particularly the vulnerable sections to increase their capabilities, participate productively in the market and earn their freedoms (Sen, 1999).

The economic argument for decentralisation is founded on efficiency gains from public service delivery. The first generation theories, assuming a benevolent State, demonstrate that decentralisation enables delivery of public services according to diversified preferences of the people and therefore, results in welfare gains. The

“decentralisation theorem” which typifies the first generation theories states, “...in the absence of cost savings from the centralised provision of a (local public) good and of inter-jurisdictional externalities, the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption are provided in each jurisdiction than *any single, uniform* level of consumption is maintained across all jurisdictions” (italics added; Oates, 1972, p. 54).

The efficacy of a decentralised system in improving governance, achieving empowerment, enhancing efficiency in service delivery and impacting on growth and poverty depends on the nature of the institutions and more particularly the power structure in local areas. In the literature, the economic argument for decentralisation is rooted in the premise that it will enhance efficiency. Decentralisation enables a wider choice and ensures better matching of public service – tax bundles with the preferences of people. The mechanisms to exercise the choice can be exercised either by ‘exit’ (Tiebout, 1956) or by ‘voice’ (Oates, 1999). However, the welfare enhancing argument for decentralisation is rooted in the ‘common good’ doctrine in which social welfare is maximised by an organicist state or a benevolent dictator. In contrast, in the world in which different agents of the government are motivated by self interest, the oligopolistic power structure can result in bureaucratic, political elite or interest group capture (Brebn, 1996, Bardhan, 2003).

The second generation theories (SGT), do not assume a benevolent state; they take that agents within the governments (bureaucrats and politicians) have their own objective functions operating within the constellation of incentives and constraints depending on the given fiscal and political institutions (Oates, 2008). The SGT theorists highlight the advantage of decentralisation in enhancing greater accountability to people, with the trade off being in terms of lowered coordination in policies to internalise spillovers. From the viewpoint of developmental implications of decentralisation, application of Kornai’s (1986) analysis of ‘soft budget constraint’, originally developed in the context of state enterprises in socialist economies provides useful insights. The analysis takes its motivation from the fiscal crisis precipitated by exploitation of “fiscal commons” leading to perverse behaviour of subnational governments in Latin America. The model argues that decentralisation can lead to the exploitation of fiscal commons resulting in soft budget constraints and this would impede rather than promote development. Ensuring hard budget constraint is essential for Market Promoting Federalism (MPF) and this requires that important sources of soft budget constraints for subnational governments in various countries are avoided. These are (i) ill defined responsibilities to units and functionaries; (ii) federal transfers; (iii) borrowing and bail outs; (iv) absence of a strong system of private markets (land, capital); and (v) history and precedents (Weingast, 2009).

In much of the literature on decentralisation, there is no clear causal linkage established between decentralisation and economic growth (Martinez-Vazquez and McNab, 2003). Of course, theoretical arguments for decentralisation were advanced in terms of efficiency in resource allocation, preservation and development of markets, increased participation of people in policies and hence, inclusive governance and responsive public service delivery. The traditional argument for decentralisation is that it provides greater choice to the people to match public service provision with their preferences by either “exit” (Tiebout, 1967) or voice (Oates, 1972). The resulting efficient allocation of resources enhances welfare. The extensions of these arguments are in terms of increased participation of the people in decision making and responsiveness of the governments. Much of the mainstream literature on fiscal federalism, as reviewed in the previous section, arrives at this conclusion.

A more advanced argument for increased efficiency is that of “laboratory federalism”. In this, decentralisation is perceived as providing a congenial environment for development by enabling experimentation with new policies and methods of delivering public services. As stated by Justice Louis Brandeis in 1932, “....It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose to serve as a laboratory, they try novel social and economic experiments without risk to the rest of the country” (quoted in Osborne, 1988). Laboratory federalism can work in a variety of ways. In some the higher level government may provide the general framework within which the decentralised governments can introduce their own programmes. Alternatively, the initiative for new policies may actually come from the decentralised governments.

The link between decentralisation and development comes stronger in the formulation on ‘competitive federalism’. Breton (1995, 2006) and Salmon (1987, 2006) provide a more systematic analysis of vertical and horizontal competition to conclude increased efficiency under decentralisation. Pierre Salmon’s analysis of horizontal competition shows that citizens of a jurisdiction can use information about the public services provided elsewhere to evaluate the performance of their own governments, in the manner of a rank order tournament¹ Therefore, competition among governments not only affects policies to attract or keep citizens happy, but also interacts with electoral incentives. Accordingly, “[e]ach government has an incentive to do better than governments in other jurisdictions in terms of levels and qualities of services, of levels of taxes or of more general economic and social indicators.” Empirically, whether this happens or not (and this is a question that needs to be examined in the Indian context) depends on “the possibility and willingness of citizens to make assessments of comparative performance...and [on] the impact these assessments have on the well-being of politicians” (Salmon, 1987, p. 32). Breton (1995, p. 237) argues that the “Salmon incentive mechanism” is an essential pre-requisite for competitive governments and is quite important in understanding the diffusion of policies and programmes among jurisdictions in federations. While analytically this formulation brings in additional insights, there are questions about its applicability in developing countries such as, India. More importantly, the preconditions required for healthy intergovernmental competition such as the existence of a well functioning democracy, people’s participation in governmental policies and elections being fought on issues relating to policies and public service deliveries may not simply exist in many developing countries.

In contrast to the above, there is a strand of literature that argues that decentralisation actually impedes rather than promotes development for three important reasons. First, decentralisation adds to the coordination problem particularly in ensuring macroeconomic stabilisation (Tanzi, 1986, 2002). Second, Prod’homme (1985) argues that in developing and transitional countries, subnational governments impede development due to their lower capacity to deliver public services. Finally, Prod’homme asserts that local politicians and officials are more corrupt. Yet another strand of literature taking the example of the experience in Latin America focuses on the exploitation of “fiscal commons” by subnational governments leading to their perverse behaviour. The model argues that decentralisation can lead to the exploitation of fiscal commons resulting in soft budget constraints and this

¹In general incentive models, incentives are not perfect from the principal’s point of view because the performance of the agent (here the government) is subject to noise. Hence performance is not a perfect indicator of effort. Relative performance can help to reduce this noise in evaluating effort: see, Milgrom and Roberts (1990), chapter 7.

would impede rather than promote development (McKinnon, 1997, Weingast, 1995). Another potential adverse effect of decentralisation on development arises when the local officials, even if they are elected in a democratic process are a part of the local elite or are subservient to local elite. Such an 'elite capture' can create a series of problems including exaggeration of cost of providing local public goods, poor quality of local public goods provided, corruption, and diversion of the local public goods to non-intended groups (Bardhan and Mookherjee, 1998, 1999).

Unfortunately, there are no analytical bases for these assertions and one can easily make counter-arguments for each of the above arguments. First, corruption is not a prerogative of only local government officials and it is not certain whether local corruption is more harmful on development than central corruption. It can also be argued that at higher levels of government, the values of contracts are much more, and therefore the scope for corruption is much higher. Ultimately, this is an empirical issue. Second, low capacity of local governments is a case for taking initiatives to develop the capacity and not an argument against decentralisation. Finally, the elite capture of public services at local levels depends on the power structure and again, it is not an issue of centralisation versus decentralisation, but one of ensuring a well functioning democracy with active participation of the people. Capture by special interest groups can happen at the central level as well.

Thus, as argued by Bardhan and Mookherjee (2007), effectiveness of decentralisation as a developmental catalyst is context and design specific. The context of decentralisation depends on factors such as the nature of devolution, extent of people's participation in decision making, educational, social and economic status of people within the local government and the nature and extent of information dissemination including the existence of active media. The design of decentralisation determines the extent of devolution of powers and sources of finance and clarity in assignments of functions and sources of finance. The design of decentralisation also determines permanency or inextinguishability of assignments either in the constitution or through conventions. It also determines the powers and capacity of the local officials to undertake their assigned responsibilities, the degree of transparency, the mechanism and extent of information dissemination and oversight and checks and balances to enforce the above (Bardhan and Mookherjee, 2007).

The issue of decentralisation and development, thus, boils down to appropriately designing the decentralisation reform in a given context, which again, does not remain static. This implies that as the context changes, it may be necessary for the design to be changed. In spite of these complexities, an understanding of both contextual and design factors that make decentralisation work and act as a catalyst in economic development would help in calibrating decentralisation reforms.

3. Decentralisation and Development: A Review of Empirical Studies.

Much of the empirical literature examining the impact of decentralisation on economic well being considers the direct and indirect relationship between decentralisation and economic growth or its components. Most studies examine the relationship between decentralisation and development essentially by regressing economic growth on various measures of fiscal decentralisation. Oates (1972) in one

of the earliest studies taking a sample of 58 countries found the measures of fiscal centralisation had significant and negative correlation with per capita real income. However, it was not clear whether decentralisation is a “cause” or a “result” of economic growth.

Subsequently, there have been a number of cross-section as well as time-series studies regressing economic growth on some measure of fiscal decentralisation, but the results have been mixed. Zhang and Zou find that different measures of fiscal decentralisation in India have positive and sometimes significant effect on economic growth. Apart from econometric problems of specification, the study refers to decentralisation only up to the state level. Lin and Liu (2000) show a positive and significant relationship between decentralisation and economic growth in China. Thiessen (2000) finds a similar relationship for panels of high income, West European and middle income countries. In contrast, negative association between fiscal decentralisation and economic growth is shown by Zhang and Zou (1998) in the case of China, Davoodi, Xia and Zou (1998) for the United States. Martinez-Vazquez and MacNab (2002) on the other hand, fail to find a statistically significant and robust relationship between fiscal decentralisation and economic growth for developing countries. Thus, empirical studies have failed to establish a clear causal relationship between decentralisation and economic growth.

However, there are a number of conceptual and methodological problems with these empirical studies. First, the measurement of fiscal decentralisation is beset with innumerable difficulties. There is no single best measure of decentralisation (Bird, 1986). Indeed decentralisation is a multi-dimensional concept and using a single dimension variable in an econometric study is not likely to capture the overall effect. Second, economic growth is determined by a number of factors such as effective governance, economic freedom, savings rate, investment behaviour, human capital and technological progress. Exclusion of these variables in the estimating equations could result in the omitted variable bias. In other words, when fiscal decentralisation is seen to be a significant factor determining economic growth, it may simply be because it is capturing the effect of some other variables that might be, in reality having a greater effect. Conversely when it is not seen to be significant, it may be that other factors are obscuring the effect of fiscal decentralisation. The results of such studies are simply not robust enough to draw any clear conclusions. Third, there is a serious problem of bi-directional causality between fiscal decentralisation and economic growth in most of the estimates. Fiscal decentralisation impacts on economic growth and vice versa and when both the variables are endogenous, this must be controlled by including a variable which is correlated with decentralisation, but uncorrelated with growth. Further, it is not correct to assume that the relationship between decentralisation and growth is contemporaneous. In reality, they work with lags and identifying appropriate lags is not easy. Fourth, given that theoretical literature on the causal relationship between decentralisation and economic growth is inconclusive, there is a danger of accepting the results when the correlations are statistically significant, and these may simply be spurious (Martinez-Vasquez and McNab, 2003). Finally, even when all the above problems are taken account of, if negative relationship between decentralisation and growth is observed, that does not necessarily imply that decentralisation impedes economic growth. It may simply be that the country concerned has crossed the optimum levels of decentralisation. If indeed, multidimensional measures of decentralisation are chosen, there can actually be multiple optima of decentralisation.

The results of empirical studies on the impact of decentralisation on work effort, saving and investment, production efficiency as well as matching of preferences too are unreliable due to the problems of specification and measurement of decentralisation variable. In particular, as mentioned above, these studies suffer from omitted variable bias, the problem of spurious correlations, bidirectional causality and proper identification of time-lags (Martinez-Vazquez and McNab, 2003). The only conclusion that can be drawn from the review of these studies is that our current knowledge of the impact of decentralisation on economic growth is too limited to make any generalisations.

As mentioned earlier, the traditional argument for decentralisation is that it enhances efficiency. Efficiency can be in terms of enhancing the welfare of the people by enhancing the scope of providing public services to match their preferences (i.e., "consumer efficiency") or better efficiency in the supply of public services (i.e., "producer efficiency"). Of course, there is a predominant belief that decentralisation can lead to greater consumer efficiency, because in much of the analyses, there is *a priori* belief that decentralised systems are more responsive. There is also a belief that the central government cannot vary public services according to the preferences of different localities, or if it can so provide, the information cost to enable the same is too prohibitive. There are hardly any empirical studies on the impact of decentralisation on consumer efficiency. Similarly, it is believed that appropriately structured decentralisation can improve resource allocation and help in pushing the production frontier through market preservation, competition, experimentation and innovation, but there are no empirical studies to substantiate this.

Another set of empirical studies focus on whether decentralisation leads to the creation of enabling conditions for development. This approach has merit because, development is caused by a number of exogenous factors and it is difficult to tease out the contribution of the decentralisation variable; whereas on the other hand, the favourable conditions created by decentralisation can be easily identified. Faguet (2004) analysed the impact of decentralisation reform in Bolivia in altering the prevailing investment patterns. The country was highly centralised on the eve of the nationalist revolution in 1952 and continued to be so as it followed a dirigistic industrialisation strategy until it embarked on a major decentralisation reform in 1994. The reform led to increase in the tax devolution to the local governments from 10 per cent of the central government revenue to 20 per cent, assignment of the responsibility for the provision of major social and physical infrastructure such as education, culture, sports, local roads, and irrigation to the municipalities, establishment of oversight committees legally distinct from the municipal governments comprising of representatives from grass-roots groups within each municipality to oversee municipal spending and restructuring of the municipalities by creating 198 new municipalities (which comprised of 64 per cent of the total number) and expanding the existing ones to include suburbs and surrounding rural areas. Based on econometric analysis, Faguet (2004; p. 30) concluded, "...decentralisation significantly changed national public investment patterns. Investment changed unambiguously in education, water and sanitation, water management, agriculture, and urban development after 1994 reform, and there is some evidence that it may have changed in health, transport, communication and industry and tourism as well. Furthermore, these changes are strongly and positively related to real local needs".

The experience in Columbia too showed that decentralisation led to fivefold increase in municipal investments without increasing the running costs (Faguet,

2005). However, Faguet argues that decentralisation is not a panacea for all ills, as he found that participatory decision making in Bolivia was more restricted than in Columbia. Faguet draws a number of lessons from the experiences of the two countries, namely, that (i) democracy and decentralisation are deeply complementary; (ii) in order for decentralisation to work well, sub-national governments must face hard budget constraints. In Columbia for example, the problem of soft budget constraints led to serious macroeconomic stability problems; (iii) it is important to have significant revenue raising powers at sub-national levels for decentralisation to succeed; (iv) decentralisation is not a policy package, but a dynamic process that is constantly evolving; and (vi) institutional history is important; the impact of a decentralisation reform depends on the character of decentralisation prior to the reform.

Habibi *et.al* (2003) analysed the impact of decentralisation on human development in Argentina. Human development was measured by infant mortality rate and the ratio of enrolment in secondary schools to primary students. The impact was estimated by regressing the two human development variables on various exogenous variables, including two decentralisation variables, using the panel data of 23 provinces over the period 1970-94. The decentralisation variables were measured in terms of (i) the share of funds controlled by the provinces; and (ii) the share of taxes raised by the provinces in the total provincial revenues. Other exogenous variables included were provincial per capita expenditures, total expenditure, number of public employees per 1000 persons and the ratio of royalties to controlled revenues and ratio of conditional transfers to provisional revenues regressed on health and education variables. The results showed that the coefficients of the two decentralisation variables consistently had negative and significant impact on infant mortality rate and positive and significant impact on education. These results, however, must be viewed with scepticism because of several econometric problems with the model – both the choice of variables, measurement of decentralisation, specification of the model and not accounting for time-wide causality (lags). Besides, the analysis is too aggregative; as it is confined only up to the regional (provincial) level. In view of these problems, these results must be viewed with scepticism.

Bardhan and Mookherjee (2007) have compiled a series of studies analysing the impact of decentralisation in a number of countries to bring out very useful insights. Baiocchi (2007) traces the historical evolution of decentralisation in Brazil and argues that the 1988 constitution was influenced by pressures from a wide range of groups including regional and social movements and international agencies. The constitution devolved greater political and fiscal autonomy to the local governments and the share of tax revenues of local governments increased from 11 to 13 per cent between 1987 and 1991. The paper shows that public services showed a substantial increase since the late 1980s and the disparity in services between regions substantially decreased. Similarly, infant mortality and life expectancy increased after decentralisation reforms. Baiocchi argues that decentralisation created a space for local governments to introduce innovations such as participatory budgeting. The experiment in the local government of Porto Alegre has substantially improved public service delivery and this was diffused to other local governments, though result were uneven and the success depended upon the acceptance by the civil society.

The big bang decentralisation in Indonesia initiated after the fall of the Suharto regime in 1988 devolved responsibility for delivering health, education, infrastructure and environmental services to local governments. The reform also entailed the transfer of 2/3rd of civil services from the centre to local governments,

though the latter did not have the autonomy to hire or fire them. Based on their survey, Hofman and Kaiser (2007) found that there were significant improvements in local service delivery and satisfactory ratings for local civil services. These ratings were higher than those supplied by the centre. They also recorded that high levels of corruption continue to persist both at the district and village levels.

Chaudhuri's (2007) analysis of Indian decentralisation following the 73rd and 74th Amendments brings out that reform was incremental rather than radical and was aimed at eliminating the shortcomings of the previous regime. In his view, the extension of fiscal and functional devolution was low and state bureaucrats continued to retain control in most of the states even after the constitutional amendments. He also records that the participation in village meetings (*gram sabhas*) has been sparse except in a few states. He shows that indices of devolution were uncorrelated with alternative indicators of economic performance of human development.

West Bengal is one of the states in India that implemented decentralisation much more effectively after the 73rd Amendment of the Constitution in 1992. The analysis of the impact of the various measures taken to broaden and deepen the decentralisation reform by Bardhan and Mookherjee (2007) shows that even though about 2/3rd of the local government positions were taken by landless, small and marginal farmers, they were under-represented as their population weight was 96 per cent. The study argues that there is considerable responsiveness and accountability in the pattern of resource allocation in villages. The analysis also shows the state reservation for women enhances the participation of women in village council meetings. They show that reservation for women for chairpersons in the *panchayats* resulted in significant shifting of public spending from informal education centres to drinking water facilities and road maintenance. The analysis also shows that the bulk of the resources for welfare programmes flowed to poorer sections. There is also sufficient evidence of the influence wielded by large and medium land owners, particularly in inter-village allocations (Bardhan and Mookherjee, 2007 ; p. 22).

The analysis of decentralisation in Pakistan by Cheema, Khwaja and Qadir (2007) shows that decentralisation initiatives came mostly from the military rulers in the country. The most important attempt to revitalise the local governments was under General Musharraf in 1999. The initiatives included establishing the supremacy of district level Nazims over provincial bureaucrats, devolving the responsibility of a number of public services including primary education and health, farm and water management to district governments, introduction of rule based transfers and reservations for peasants and women in the elected local body. Keefer, Narayan and Vishwanath (2007) find that there is no conclusive evidence of improvement in the quality of public services due to these initiatives.

The study of China by Justin Lin, Tao and Liu (2007) shows that the decentralisation initiative was part of the basic market oriented reforms since late 1970s. They concluded that decentralisation had a positive impact mainly in the coastal provinces, particularly in spurring competition between the township and village enterprises, which played a crucial role in accelerating economic growth in these areas. However, the study showed that there was little inter-regional redistribution and the interior and backward regions and rural areas did not have access to adequate fiscal resources. In the event, in these places, decentralisation merely resulted in providing unfunded mandates to the local governments.

The study of decentralisation in South Africa, particularly after the apartheid system was given up was an exercise in consolidating the local governments occupied by the whites with those occupied by the coloured people. The 2000 reform consolidated 800 transitional councils to 231 municipalities and significant reforms were made to ensure adequate resources in an equitable formula based manner. Wittenberg (2007) argues that these were largely redistributive and has helped to reduce poverty and inter-racial inequity. In other respects like population, participation and reduction in corruption, the evidence is mixed.

The impact of decentralisation on corruption has also been a subject matter of a number of empirical studies, but there is no clear conclusion on this either. There are two opposing views in the literature. One strand of literature argues that corruption is likely to be more at the local level in developing countries due to greater opportunity, dominance of local interests in the affairs of the local government, poor supervisory mechanisms and blurred distinction between local politicians and officials (Prod'homme, 1985, Tanzi, 1986). In contrast, others have argued that opportunities for corruption are less under decentralised governance due to greater transparency and accountability (Klitgaard, 1988). The empirical studies of Huther and Shah (1998) and Fisman and Gatti (2000) find negative correlation between fiscal decentralisation and corruption. In another cross-country study including both developed and developing countries, Shah (2000a) finds that decentralisation enhances accountability. In contrast, Treisman (2000) finds evidence of greater corruption in federal states. Thus, there is no clear evidence to generalise the relationship between decentralisation and corruption and the whether or not decentralisation leads to corruption depends on the nature of the power structure in local areas, quality of governance, transparency in administration, role of the media and the existence of checks and balances in the decentralised system .

The foregoing review shows that neither the theoretical studies nor empirical analyses show clear evidence that decentralisation leads to development. Therefore, it would be unwise to presume that merely assigning constitutional status and devolving some powers to local governments, by themselves would result in improving the quality of lives of the people. At the same time, it has been amply demonstrated that any centralised development strategy will not take into account the diverse needs of the population and is therefore, unworkable.

The important issue therefore, is one of conditioning the context and design of decentralisation to make it a catalyst in development. Often, the context or the prevailing objective conditions can be changed only in the medium term ; in the short term, if the context is hostile to the devolution of power, constitutional enablement and other policies and institutions may simply fail to generate the dynamism required for development to accelerate. In India, given its size and diversity, it is necessary that both the context has to be reformed to create an enabling environment in which decentralised institutions can prosper and decentralisation policies are designed to ensure functional autonomy to decentralised institutions .

4. Panchayats and Development: Case Studies on India

(a) Decentralised Planning and Development Initiatives

In this section, besides recounting the various initiatives to adopt decentralised planning for development of the country, some interesting case studies

of successful village *panchayats* are summarised. This helps to understand the important institutional factors as well as the design features of decentralisation that contribute to village *panchayats* playing a proactive role in development. These lessons will help in identifying important policy and institutional changes required to spur village *panchayats* to act as catalysts in development.

Attempts at adopting decentralised planning goes back to the First Five Year Plan itself, but these were largely *ad hoc* and without any consistent and stable strategy. The first plan recognised the need to have planning exercises at state, district and local community levels, but not much was done. The creation of District Development Councils in the second plan to draw up plans right from the village level with people's participation also did not meet with much success as the enabling institutional framework simply did not exist. The Balwant Rai Mehta Committee, the First Administrative Reforms Commission and successive five year plans emphasised the need to have decentralised development planning to be framed at village, block, and district levels. The Dantwala Committee recommended the formulation of block level planning to link village level planning with district level planning. The Centrally Sponsored Schemes (CSS) introduced in 1983-84 to strengthen the district planning machinery and creation of district credit plans at the instance of the Reserve Bank of India were in the direction of promoting development through decentralisation, but in the absence of a coherent system for implementation they did not achieve the desired objectives. There were subsequent Committees such as the Hanumantha Rao Committee and G.V.K. Rao Committee that made recommendations to devolve functions and set up a responsive administration to promote rural development. The 73rd Constitutional Amendment and the subsequent attempts to promote decentralised planning including the recommendations of the recent Expert Group for Decentralised Planning at the Grassroots Level (2006; Chairman: V. Ramachandran) are other attempts to promote decentralisation as a means to achieve rural development in the country. Similarly in areas covered by the Sixth Schedule of the Constitution, attempts have been made to invest the traditional village development councils and district development councils with powers to undertake decentralised planning from below. However, there is much to be done to create a proper decentralised institutional framework for development.

Although it is not possible to discern a clear nexus between decentralisation and development, there is evidence in the Indian context that a properly designed decentralisation in a congenial environment can improve welfare of the community. In general, decentralisation to rural local governments has not been very effective in most states. In this otherwise desolate situation, the decentralisation experience of Kerala stands somewhat in contrast. With high rate of literacy and political awareness and relatively less uneven distribution of land holdings a higher rate of participation in *gram sabhas* is only to be expected. In addition, *gram panchayats* in Kerala have an average population of more than 20,000, which enables them to reap greater scale economies in the provision of many public services. Better information dissemination across *panchayats* helps in replicating good practices throughout the state. Indeed, people can benchmark the performances by observing good practices in other *panchayats* and pressurise their governments to adhere to the benchmark.²

² This is known as the Salmon mechanism. Pierre Salmon developed the hypothesis on horizontal inter- governmental competition using a conceptual framework similar to the link order tournaments in which voters and opposition parties benchmark the performances of best performing local governments and pressurise their own government to provide comparable services. See, Salmon (1987) and Breton, 1996.

In addition to these favourable factors, the people's plan movement initiated by the government (discussed in greater detail later) has had a significant impact in enabling *panchayats* to be the drivers of economic development in the state.

Although the general performance of *panchayats* in promoting inclusive development has not been impressive, there are some cases where they have taken initiatives to ensure better service delivery or promote development in a systematic manner. As in Kerala, though to a lesser extent, decentralisation is considered to have promoted development in West Bengal and this is mainly attributed to relatively successful asset redistribution through land reforms. There are also other isolated cases of decentralisation initiative acting as a catalyst in development. The case of Hivre Bazaar in Nagar Taluka (Ahmednagar district), for example, brings out the impact of an integrated approach to achieving holistic development by revitalising the environment and creating livelihood opportunities, particularly to the disadvantaged sections. Similarly, there are instances of *panchayats* in Karnataka taking initiatives to provide water supply and undertake other developmental initiatives. In other words, in what follows, we analyse case studies that showcase developmental efforts to accelerate growth, including those that advance poverty alleviation and achieve targeted delivery of services. The experience of the people's plan movement and anecdotal evidence of some other successful cases of *panchayats* contributing to various aspects of development are discussed in the following.

(b) *Panchayats and Development: People's Planning Process in Kerala*

The most important innovation in a decentralised development strategy is the people's plan introduced in Kerala. The Left Democratic Party (LDP) that came to power in Kerala in 1996 decided to devolve 33 per cent of the states' plan budget for spending on development projects formulated by the *panchayats* at the village, block and district levels. Based on people's preferences articulated by the *gram sabhas* (village assembly), village *panchayats* were required to formulate their plans, which were coordinated and vetted at the block level and approved at the district level by a District Planning Committee constituted in accordance with the provisions of the constitution to consolidate the district plan. This campaign is popularly known as the 'People's Planning Campaign' (*Janakeeya Aasoothranam*).

The major objectives of decentralised development in Kerala are to: (i) promote local economic development by increasing production and productivity of agriculture and allied sectors and traditional and small scale industries with focus on employment and poverty reduction; (ii) reduce gender disparities; (iii) integrate area development; (iv) upgrade the quality of basic services provided by *panchayats* with special emphasis on health, education, water supply, sanitation including solid waste management and disabled care; (v) improve governance particularly with reference to transparency, participation and responsiveness; and (vi) bring about an organic relationship between transferred departments and local governments and role clarity.

When it was initiated, the concept of peoples' plan, entailed sequence of phases with villagers, non-official experts and volunteers participating in preparing reports, formulating projects, and drafting the plan. Important felt needs of the people were identified in the *gram sabhas*. Various development seminars attended by delegates from the villages, officials from block, district and state agencies, and the non-government sector helped to assess resources of the *panchayats* and preparation of reports. Several volunteers comprising of retired teachers, retired bankers, and superannuated officials from the government and non-government

sector helped to prepare development projects and these were included in the preparation of plans at the village level which were consolidated at higher levels. Voluntary technical groups comprising of enrolled retired technical experts and professionals, appraised the projects and plans of the local bodies (Issac, 2000).

This is, by far, the best approach to decentralised planning adopted anywhere in the country and therefore, is worthy of emulation in other places. Of course, the approach is not without shortcomings and the report of the Committee on Evaluation of Decentralised Planning and Development (Chairman: M. A. Oommen) appointed by the Government of Kerala (Kerala, 2009) brings out some of them. The first is that the system does not incorporate technical support and inputs. It is argued that the quality of the work of the working groups preparing the projects could significantly improve if the *gram panchayat* presidents engaged technical experts from outside. Second, there is a need to better integrate the local plans with the state plans and plan formulation process with budgeting. Third, there is resentment about the plethora of guidelines and directives given to *panchayats* on the ways in which they can use funds, such as on overall sectoral and special component plans, fixing percentage allocations to various sectors, women component plan, *anganwadis* and *ashraya* scheme. Fourth, although initially there was much enthusiasm in the people's planning over time, the entire process has become a routine exercise. The Committee states, "...in the ultimate reckoning despite the Working Groups (WGs), clerks prepare the projects in a haphazard manner. Second, there is no coordination of the reports of the various sectoral WGs. In other words, decentralised planning becomes a fragmented exercise. This negates the essence of making comprehensive area plans." (Kerala, 2009).

Despite these shortcomings, the grassroots planning experiment introduced in Kerala is unique. It is not easy to overcome the resistance for transferring such a large volume of plan resources from the state government to the *panchayats* and this could be done only due to the strong political will. Once this was achieved, it created tremendous political goodwill and even as the party in power changed, decentralised planning continued. Given that there is considerable transfer of funds from the central government for various central schemes, it is important that in addition to the states' transfers, these too are incorporated in the people's plans. The Report of the Expert Group on Grassroots Planning provides a fairly detailed methodology to incorporate funds from central schemes in grassroots planning (India, 2006).

(c) *The Green Kerala Express Social reality show*

The Kerala state government has employed a novel method to activate competition among the *panchayats* and showcasing the best performing *panchayats* through a social reality show called, "The Green Kerala Express". This is a television reality show in which best performing three *panchayats* are given awards in a series of glittering popular shows involving prominent entertainers including film personalities.

The project was initiated by the Kerala Government in association with *Thiruvananthapuram Doordarshan*. The competition first invited all 999 *gram panchayats*, 57 municipalities and five corporations in the state to provide a short video showcasing their sustainable development projects. More than 200 local governments responded with interesting stories of local development, covering aspects such as water and land management, sanitation, environment, health, energy, education, social welfare, the NREGS, women empowerment projects taken

up under the *Kudumbashree programme*, agriculture and improving food security. Of these 152 were shortlisted and the production teams visited each of them to interact with the people which were captured in two short films, one on the cultural and historic profile of the village and the other on the developmental initiative. These *panchayats* were then invited to the studio, where the films were screened and they interacted with a five member jury. Based on the percentage of the marks awarded to the *panchayats* which depended upon citizen votes collected through SMS, 15 LGs were eventually selected for the second round. The jury visited each of the 15 LGs along with the video team and evaluated their performance on the ground. Based on a final jury interaction onscreen, the best three *panchayats* and two municipalities were selected with audience participation in the selection. The best three *panchayats* that were awarded prizes by the Chief Minister of the state in the final show in 2010 were:

- (i) *Elappully* (Palakkad district): First Prize.
- (ii) *Akathethara* (Palakkad district): Second Prize.
- (iii) *Adatt* (Thrissur district): Third Prize

Several factors contributed to the unqualified success of the TV programme:

- (a) Adoption of the popular social reality show: The production quality was slick, with plenty of glamour in the form of good anchors and popular stars from the Malayalam film industry also anchoring some shows.
- (b) The daily shows: Starting on March 1, 2010, the show ran continuously, with daily 40 minute episodes, culminating in the grand show finale, on 27 July. The daily episodes ensured audience interest and involvement in the voting for selection of the best performers,
- (c) The credibility of the jury, which also comprised renowned literary, journalistic and academic figures respected in Kerala for their scholarship. The non-partisan nature of the jury was an important factor, given Kerala's strong party polarisation even at the LG level.
- (d) The high stakes, the best three *panchayats* received prizes of Rs. 1 crore, Rs. 50 lakh and Rs. 25 lakh respectively. The remaining LGs participating in the final round received Rs. 10 lakh each.

The development schemes of the prize winning *panchayats* are highlighted below:

Elappully Panchayat, First prize winner

This *panchayat*, over two years, increased the milk production by small dairy farmers from 2,400 litres a day to 12000 litres, increasing incomes by Rs. 7.5 crore in 2009-10. The *panchayat* encouraged paddy farmers who were facing unsustainably high costs of cultivation to adopt dairying as a second livelihood option. Women from paddy growing families were supported to set up more than 600 dairy units, each with two cows. The *panchayat* provided direct support to women from their block development grants. In addition, it provided valuable support services, such as fodder cultivation on 50 acres of land and setting up a model veterinary hospital. As a result, the number of dairy farmers doubled from 1400 to 2800 in two years.

Dairy farmers first supply farm fresh milk to households, hotels and other establishments in the *panchayat*. The remaining milk is sold to the Cooperative,

Milma Some dairy farmers have also launched various value-added products under their own brand names.³

Families with more supplementary income from milk increased paddy cultivation. The programme inspired the government higher secondary school to start fodder cultivation its two acres of surplus land. To ensure that NREGA activities did not create a shortage of farm labour, it expanded the NREGA activities during the off season for paddy cultivation. For six months of the paddy growing season, the NREGA programme was put on hold. Work under the scheme was then ramped up during the paddy off season, so that workers were assured of work all year around.

Akathethara Gram Panchayat, Second prize winner

Akathethara gram panchayat is located in the Palakkad gap, which is a 40 kilometre wide gap in the Western Ghats. In this ecologically fragile region, the *panchayat* launched the 'Green the Gap' programme on June 5 2009, the World Environment day, and planted more than one lakh saplings. A year later, an independent survey showed that 90 per cent of the saplings had survived. During 2010, a further 25000 saplings were planted to cover all the public lands available in the village including the sides of roads and canals and the banks of the Kalpathy river. Afforestation was also taken up on private lands. To do this, the *panchayat* pooled the funds from various schemes on watershed development and involved farmers' groups through the Integrated Watershed Committee of the *panchayat*

In addition to its work on improving the environment, the *panchayat* also set up an agro clinic to give farmers tips on good farming and has set up a labour bank, to ensure that there is adequate labour for agricultural operations. Other innovations taken up by the *panchayat* include a fully computerised office with a front office where applications and petitions can be submitted for services such as obtaining certificates of ownership, birth, death, residence. The *panchayat* has established a 'Senior Citizens Club' to make it a senior citizen friendly *panchayat*. Health care is being provided to terminally ill patients under the *Ashraya Scheme*. The *panchayat* has also set up a solid waste management plant in its bid to become a zero waste *panchayat*. It has already won the *Nirmal Gram Puraskar* of the central government for its total sanitation initiatives.

Adatt Panchayat, Third prize winner

This *panchayat* in Trissur began to convert itself into an organic farming village starting from 2002, by reducing the consumption of toxic pesticides in the paddy fields, which had also contaminated the major water sources in the area. It did this through a public campaign to persuade farmers to drop the use of pesticides, as also by taking up a demonstration of organic farming techniques using only environmentally friendly pesticides. The paddy produced in the *panchayat* through chemical free farming was converted into rice by *Kudumbashree* groups and is now marketed as the *Adatt* brand of rice and commands a premium value. This experience was translated into producing organic coconut and the oil produced was marketed under the brand name, *Kerasree*.

Another successful initiative of the *panchayat* has been to improve the quality of drinking water, by reducing saline water intrusion. A treatment plant to reduce the

³ Adapted from the Hindu, Kerala edition, 23 July, 2010

iron content in the water was established in 2005 and a participatory drinking water supply project was launched. Earlier, this *panchayat* had already won the *Nirmal Gram Puraskar*.

A unique initiative taken up by *Adatt Panchayat* is the setting up of an *Adatt Gram Panchayat Tourism Promotion Council*, which manages a riverside tourism spot, providing boating facilities for tourists. The *panchayat* has a picturesque hill, Vilangan Kunnu and it is also a haven for migratory birds.⁴

Adatt has also covered more than 3,500 BPL and 1,000 APL families under the Universal Health Insurance Scheme, in the process winning the first *Health Security Panchayat Award* instituted in the state.

The analysis of the winners, as also the well performing *panchayats* that reached the second round, certain trends become clear. First, all winners of the Green Kerala express show have focussed on promoting larger local development issues and not provision of local public services. This was made possible because of the availability of block grants for the *panchayats* which in turn provides scope for innovation. These winners have also understood the intricate economic linkages between different kinds of complimentary activities to strengthen the developmental effort. Thus dairying has been linked to paddy cultivation and marketing of agricultural products.

The winners have been innovative, both in the way that they have run conventional programmes (deliberate slowing down of the NREGA to prevent artificial shortages of labour – *Elapully*) as also in starting new ones (*Adatt's* tourism project). They have also been versatile; while promoting local economic development, they have not neglected their core responsibilities of improving civic services, or providing social services (the senior citizens club in *Akathethara*). Quite often, the confidence and credibility built up through running core responsibilities well, have played a large part in successful implementation of development programmes.

Finally, the state government has played an important promotional role in providing the right environment for the *panchayats* to undertake such innovations. The provision of a block grant with only broad conditionalities on its use is an important contributor. Second, the decentralised planning methodology in the state, which promotes a cooperative rather than an adversarial relationship between the different tiers of LGs, has made the convergence easier. Third, despite the criticisms of *Kudumbashree programme* for 'persuading' the poor women to join collectives, such linkages have played a great part in the success of the development initiatives taken up in these *panchayats*. The *Kudumbashree* groups have provided flexibility, acted as outreach agents of the *panchayats*, and also as important links in the marketing system so essential to make economic development initiatives successful and sustainable.

There are important lessons for both central and state governments from the Green Kerala Express initiative. The first is that there is not much need to undertake role clarity exercises such as activity mapping for economic development activities. Such role clarity exercises are difficult, because the activities relating to them are intertwined across jurisdictions and cannot be mapped to specific jurisdictions.

⁴ Adapted from the Hindu, Kerala Edition, 7 July 2010

(d) *Integrated Development Experiences: Case Studies*

Hivre Bazar: An exemplary instance of a *gram panchayat* playing a lead role in development is brought out vividly in the case of Hivre Bazaar panchayat. Located in Nagar Taluk of Ahmednagar district in Maharashtra state, the *panchayat* was responsible for transforming the village. This provides an example of the way in which the *panchayat* can act as a catalyst in development.

In 2001 the Hivre Bazar *panchayat* had a population of just 1150 or 205 households. In the 1970s the place was synonymous with scant rainfall, acute water scarcity, repeated crop failures and land degradation resulting in a number of households migrating to other places in search of livelihood. In this environment the villagers elected Popat Rao Bahuji Pawar as the sarpanch of the village *panchayat* in 1990. Pawar, a post graduate in commerce, was inspired by the life and teachings of Anna Hazare and Baba Amte and took the leadership mantle to transform the village. Based on the priorities identified by the villagers in the *gram sabha* in 1990, he was able to identify socio economic problems and requirements of the villagers to evolve an integrated development programme.

The important initiatives that he embarked upon in pursuing a programme of sustainable development in the village included installation of 112 bio gas plants to improve the health conditions of women, ensuring construction of adequate number of toilets to prevent open defecation and ensure dignity of women, and construction of a mosque for the only Muslim household living in the village. On the energy resources and environmental front, energy needs of the village are by and large met by bio gas plants and at present, almost all the households use LPG. The village uses vermin-composting to convert animal waste into manure. It has installed soak pits to manage waste water, underground drainage to ensure cleanliness in the village and the people have been sensitised to ensure proper waste segregation and management.

The most important initiative, however, relates to water management and harvesting systems to harness the rain water. The major developmental schemes adopted by the *panchayats* include the watershed development programme, drought prone area programme and the rural sanitation programme. Much of the developmental work was done by the voluntary labour contribution of the villagers (*shramdan*). There were strict rules specified to ensure ban on grazing, ban on tree cutting, ban on alcohol consumption and persuasive efforts at family planning (one family, one child). In that sense, the developmental effort is aimed not merely at ensuring sustained growth but involves social inclusion and cohesion as well.

Apart from ensuring water to the villagers, the focus on integrated development has been to ensure human development through health and education, preventing uncontrolled exploitation of ground water and selective ban on cultivating water intensive crops. The *panchayat* leadership has put in a lot of effort in providing guidance on the crops to be cultivated, compost development and watershed development and judicious use of underground water. The *panchayat* leadership has also made efforts to develop animal husbandry.

The consequences of this integrated development programme have been impressive. Water conservation has solved the problem of water scarcity and there are now over 300 wells in the village with adequate amount of water supply. The farmers in the village have adopted crop patterns depending upon the water

availability. The village has 100 per cent *pucca* houses, cemented roads, underground drainage system, primary and secondary schools, a community centre, *anganwadi* centres and a primary health care centre. Income levels of the people have increased significantly due to higher yield in agriculture and dairy farming. Not surprisingly, the village has earned several awards both from the Government of Maharashtra and from the Government of India. The important amongst these include *Mahatma Phule Water and Land Service Award* in 2002 from Government of Maharashtra, *Krishi Ratna* award in 2007 and the *National Water Award* from the Government of India in 2007. Hivre Bazaar presents a case of an integrated sustainable development promoted by a village *panchayat* managed through inspired leadership. This is a typical case where leadership can mobilise people to achieve the common good.

(e) *Sustainable Development Examples*

Gendra, Attha and Bari Sirkiri in Madhya Pradesh: These three *panchayats* constitute the mini-watershed (areas varying between 1,000-10,000 ha area) at the headwaters of the Kara river (a tributary of Narmada) in Alirajpur district of Madhya Pradesh. These *panchayats* have initiated a voluntary communitarian forest, soil and water conservation initiative even prior to the 73rd Constitutional amendment. This is a case where the *panchayats* adopted the traditional *Dhas* (voluntary community service) in which, the inhabitants who are predominantly tribal, pool their labour and resources for sustainable development.

The three *panchayats* are inhabited by the Bhilala and Bhil tribal population. Traditionally, these groups adopted the *Dhas* system in which a group of 10-12 households teamed and pooled their labour to do agricultural work like ploughing and weeding. From 1989, they organised themselves under a trade union *Khedut Mazdoor Chetna Sangath* and revived this communitarian custom for soil and water conservation. Initially two villages Gendra and Attha were in one *panchayat* and the *sarpanch* was Nayaka Thakrala, who was a traditional priest and a visionary leader. Later, the two villages have become separate *panchayats* and *Attha panchayat* was led by Gomar Singh Padhyar, who was also an energetic leader. Apart from these, women worked under the leadership of Dahelibai Laliya. Sirkhari *panchayat* closely followed the development pattern set by the other two *panchayats* under the leadership of one of the members of the *panchayats*, Bilaria Singh.

The three *panchayats* have done considerable work through their voluntary cooperation method, much more than the work carried out from the funds made available through the *panchayats*. From 1994, they have taken up small structures for which cement had to be purchased. The amount of work done through voluntary cooperation was considerable in soil and water conservation and these included bunding and levelling, gully plugs and boulder checks, farm ponds and composting.

The programme has brought in immense benefits to the villagers. The protection of forests and efforts to prevent its degradation has effectively countered the claim that tribals are destroying the forests. The social protection of forests has helped in the regeneration of forests, with small groups of people patrolling them by turns to prevent its exploitation by outsiders. The fodder generated in the fallow lands is sold to the members and the revenue generated from this is kept in a fund for carrying out plantation work. The availability of fodder has enabled goat and buffalo rearing on a larger scale, which has supplemented incomes. The strict vigilance has also increased firewood and non-timber products with significant benefits to women

and children. Intensive soil and water conservation work has helped to increase natural and artificial recharge in the watershed and consequently the Kara river is now flowing round the year. Enhanced water availability combined with availability of electricity and diesel for pumps has helped to augment irrigation in the watershed areas and has improved agricultural incomes. The three village *panchayats* are a model and provide important lessons in the way traditional methods can be usefully harnessed to provide communitarian facilities through the *panchayats*.

(f) *Revenue Mobilisation*

An important aspect of successful decentralisation is mobilisation of resources of the community for providing public services. Raising resources from the community ensures that the public services are paid for, by the people who benefit from the service and this enhances both efficiency and accountability. The two most common ways of raising revenue at local level are through appropriate user charges and through the property tax.

Pune and Satara districts in Maharashtra present an interesting example in the way it is possible to significantly enhance the revenue from property taxes by introducing a simple area based tax system at the *panchayat* level. In the two districts, property taxes based on capital value or annual rental value were reformed by a simpler and a more transparent area based method for determining the tax base. Once the parameters are specified, property owners can determine the tax liability themselves. Looking at the successful transition and improvement in revenue productivity, the Maharashtra state amended the rules under the *Panchayat Act* to enable the *gram panchayats* to adopt the area based system. The consequence of this was to substantially increase revenue from property tax by almost threefold from Rs. 147.56 crore in 1999-2000 to Rs. 425.93 crore in 2003-04.

According to the District Rural Development Agency in Satara, it is possible to improve tax revenue collections further by introducing incentive grants to the *panchayats* linked to the additional tax revenue collected beyond a specified amount. *Panchayats* not levying the tax according to the new system, will not be eligible to receive the grants. If properly designed, this could substantially increase the revenues of village *panchayats* and help them to augment public services according to people's preferences while ensuring accountability in public service provision.

(g) *Efficient Provision of Services: Water Supply*

Guttakaadu Gram Panchayat:⁵ Kinnigoli is a *gram panchayat* in Dakshina Kannada district, about 30 kilometres from Mangalore. The village is located a few kilometers off the Mangalore-Udupi national highway. The panchayat started the "Guttakaadu" water supply system recently, which is a successful example of a panchayats mobilising resources from the people and ensuring efficient water supply to them.

The construction of the system was taken up under the Rajiv Gandhi Rural Water and Sanitation Scheme, which was then known as the "Sector Reforms" programme. The *Guttakaadu System* has a bore-well as the source of water, which is

⁵ This is taken from the note: "Guttakadu – a piped water supply project with a difference" by Kaushik Mukherjee, Secretary, Rural Development and *Panchayat Raj*, Government of Karnataka with active help from the *Adhyaksha* & members of the Kinnigoli *gram panchayat*, Dakshina Kannada district.

to a 50,000 litre capacity overhead tank. There are nearly 100 individual household connections and the total cost of the system was about Rs.7 lakh . According to the guidelines of “sector reforms”, the village community had to contribute in advance 10 per cent of the capital cost. The “village water & sanitation committee” set up by the *panchayat* raised the required amount of Rs.70000 from the villagers. The committee also floated a tender for execution of the project and managed the subsequent financial transactions.

The *panchayat* president and members were clear in their views that the entire project must be self sustaining. They initially collected a onetime flat rate charge of Rs. 1000 for each household connection. Thereafter, they decided to levy graded water charges every month depending upon the consumption of water by each household as follows:

For upto the first 10,000 litres	Rs. 50 flat rate
For the next 10,000 litres	Rs. 50+Rs.10 per additional kilolitre
For the next 10,000 litres	Rs. 150+Rs.20 per additional kilolitre

To implement this tariff system, the Kinnigoli *panchayat* installed water flow meters on each of its connections to the houses. Experience reflects the foresight of the leaders to make the water supply system economically viable, their sagacity, and the willingness of the people to pay for a service. The very fact that revenue accrues to the *panchayat* based on the quantum of water supply ensures proper maintenance and minimises wastages.

The *panchayat* has also installed separate electric meters for water supply and street lights, which makes it easy for it to keep proper and separate accounts of the two activities. On an average, the *panchayat* was able to generate a surplus of over Rs.40000 per year and the surplus would go up as the number of household connections increase. The Guttakaadu experience shows that, a *panchayat* can create “self-sustaining” water supply systems. Surely, the experience is worth replicating in other *panchayats*.

Shiruguppi Gram Panchayat: Shiruguppi *gram panchayat* in the Belgaum district in Karnataka state provides another example of a village *panchayat* ensuring efficient water supply. This is a *gram panchayat* where the existing sources of water supply had no potable water, and the water piped from the Krishna River was polluted with chemicals released from the various sugar factories located on its banks. The villagers came to know of the possibility of getting World Bank assistance from an NGO and contributed up front the required 30 per cent money for sanitation. However, the World Bank assistance was not adequate and the contractor appointed by the *district panchayat* carried out poor quality work. In the meantime, the newly elected members of the *gram sabha* came to know of the clean water project (*Jal Nirmala Yojana*), but the attempt to secure assistance from the state government was mired in bureaucratic tangle. However, after a persistent struggle by *panchayat* members including a hunger strike, they got the project sanctioned under the clean water project and this has ensured adequate drinking water supply to the villagers.

Malluru Gram Panchayat: Malluru *gram panchayat* in Chikkaballapur district in Karnataka state had a population of 6052 according to 2001 census. The *gram panchayat* was faced with the acute problem of drinking water. Based on the advice given by the *district panchayat*, the village *panchayat* appointed a water supply and sanitation committee with representatives from different agencies in the village

(*anganwadi* workers, health workers, villagers, Assistant Junior Engineer etc.). The Committee met every month and took immediate steps to provide water to the poor and needy through two tankers. After gaining confidence of the people, the villagers were asked to pay upfront to get metered water supply in their houses. Sub-committees were appointed to supply water to different localities, to oversee the quality of water supplied, avoid waste and to ensure economic use of water. The “waterman” was given the responsibility of reading the meter once in every two months and to collect the charges. This has helped the *panchayats* to pay the electricity charges, the salary of the waterman, and save some money which has augmented the water supply over time and extended the hours of water supplied to the villagers. This is yet another success story of the *panchayats*.

Sanur Gram Panchayat: Sanur *gram panchayat* provides an example similar to Guttkaadu scheme described above. This is yet another example demonstrating that the people in the villages are willing to pay for water supply to sustain it in an economically viable manner if the water supply scheme is designed and implemented to provide efficient supply.

Sanur village is located in Karkala *taluk* in Udupi district. It had a population of 6328 according to 2001 census. Prior to the setting up of the water supply scheme, the people in the village had to depend on public taps and this not only was inconvenient to most villagers, but also resulted in a lot of wastage and poor maintenance of the taps. The *panchayat* members, forgetting their political differences decided to provide water supply to individual houses by charging them at graded rates. The rates were Rs 50 per 10,000 litres and Rs 10 for every additional 1000 litres. Sanur *panchayat* with an annual revenue of only 3.5 lakh started collecting additional Rs 5 lakh per year from water supply. They were so successful that they have had to extend the supply of water to the neighbouring *panchayats* like Nitte and Miyyar and parts of Karkalla municipal area, at their request.

(h) *Summary of the Experiences*

The foregoing examples of successful experiences of *panchayats* involved in integrated and sustainable development of the villages, ability to create systems to collect revenues for augmenting the standards of public services and creation of viable system of essential service like water supply provide a number of lessons. What is resented are only a few examples to demonstrate the proactive role played by the *panchayats*. There are several such examples of *panchayats* contributing to various aspects of sustainable development, which show that under favourable conditions, and if the system is designed properly, *panchayats* can be effective catalysts in development. Unfortunately, no systematic attempt has been made at any level to put together a compendium of successful experiences, which can inspire other *panchayats* to embark on developmental initiatives. In fact, horizontal learning through effective dissemination of successful experiences and creation of systems to share the experiences horizontally among the *panchayats* can be a great source of inspiration for them to embark upon their developmental initiatives.

5. Catalysing Panchayats for Development: Reform Issues

Effective decentralisation provides greater choice to the people to participate in decision making and this could act as a catalyst in development. It is also argued that decentralisation can improve efficiency in service delivery and enhance accountability. However, effective decentralisation itself requires effective participation of people and conditions and most of the so-called decentralised systems do not fulfil this essential condition. It therefore stands to reason that a review of both analytical studies and available empirical evidence is not very helpful to clearly establish a relationship between decentralisation and development.

The studies that examine the empirical relationship between decentralisation and development do not enable a clear conclusion that decentralisation necessarily results in development. In India, there are also questions on what constitutes decentralisation; often, constitutional enablement is taken to be synonymous with decentralisation. Experience shows that statutory status is neither a necessity nor a sufficient condition for effective decentralisation, though it can be immensely helpful in furthering the cause of decentralisation in terms of empowering people. In Canada, sub-provincial decentralisation is the provincial responsibility and yet, it is one of the most decentralised federations. In China too, where local governments have no constitutional protection, there is considerable effective decentralisation and counties and townships have played a very important role in the development of the country.⁶ Even within India, we can see wide variations in the role of local governments in their contribution to development in general and public service delivery, in particular.

The above proposition should not be taken to mean that constitutional enablement is not important. Surely, statutory status can be immensely helpful in empowering *panchayats*. Constitutional amendments make local governments inextinguishable, and provide them with specified legal space to function independently. Nevertheless, real empowerment of the local governments requires empowerment of the people and the *panchayats* can contribute to development only when the people are empowered and enabled to effectively participate in the decision making process.

The relevant question to address in Indian context is not whether decentralisation to *panchayats* has led to development, but rather, how can decentralisation be designed and implemented to make them catalysts in development. The critical issue from the point of view of inclusive development in India is not whether, but *how* can the *panchayats* be made to galvanise development in the villages. In other words, it is important to identify the “context” as well as “design” factors that impede *panchayats* from playing their developmental role.⁷ Empowerment of *panchayats* by empowering the people is necessary for inclusive governance, and that should go far beyond providing them the constitutional status.

In spite of various shortcomings in the design of decentralisation, we have pointed out some successful cases of *panchayats* contributing to various aspects of development in different states in India. These are not the only successful cases; in

⁶ In China, all governments below the centre are labelled as local governments. See, Rao (2003).

⁷ Bardhan and Mookherjee (2007) identify the factors determining decentralisation as “context” and “design” factors.

fact, there are several, though we have overlooked many of these because our analysis has focussed on the failures rather than successes. Indeed, these experiences show that the contribution of *panchayats* to development could have been even greater had the design and implementation of decentralisation been according to the basic principles listed above. In other words, many of the *panchayats* were able to enhance the freedoms of the people in the rural areas in spite of the handicaps inherent in the system of devolution of powers and lackadaisical implementation.

In a market economy, improvements in the standards of living of the people require the people to participate in market activities — both product and factor markets — in a meaningful manner. Disadvantaged sections do not have any assets and they earn their incomes out of selling their labour and sweat. And the only way they can improve their living standards is by increasing their labour productivity. This requires them to be healthy so that they can work on a regular basis and acquire education and skills to increase their productivity and market power. *Panchayats* have a role in both ensuring participation of people in governance and markets and in enabling healthy human development. However, success in achieving these objectives requires fulfilment of several important preconditions. The experience of the functioning of *panchayats* in the states in India and the examples of relatively successful cases bring out some important lessons which can be useful in design policies to make *panchayats* to better contribute to development and these are discussed in the following.

(i) The analysis of the experience of *panchayats* in delivering public services shows that they are relatively successful in areas where the asset distribution is relatively more even. Given that land is the major asset owned by rural households, *panchayats* are more successful in delivering public services in places where land reforms have been effective in ensuring the land to the cultivator. More even distribution of assets in a village ensures even distribution of power and prevents elite capture of public services. Generally, West Bengal is considered to be a state with more effective land reforms. Although the share of West Bengal in total cropped area of the country is just 3 per cent, it accounted for nearly 20 per cent of all cultivable land redistributed through land reform legislations. In fact, over 40 per cent of the beneficiaries from land reform in the country were in West Bengal alone. As Sengupta and Gazdar (1997; p. 132) state, "If the development experience of much of India is plagued by the political domination of propertied elites, with little or no interest in pro-poor interventions, here is the case of a State where the situation appears to be quite different". Bardhan and Mookherjee (2007; p. 217) also do not find evidence of elite capture within villages

Interestingly, the actual land redistribution due to land reforms in West Bengal as elsewhere has been marginal and for the majority of the landless, wage labour remained the most important source of livelihood. Indeed, despite land reforms, in several areas of West Bengal the system of share cropping is still prevalent. Although two-thirds of the local government positions are secured by landless, small and marginal land holders, this is smaller than their demographic weight of 96 per cent. Nevertheless, the revitalisation of PRIs in the state along with the redistribution of land has led to much greater participation of the people in planning and implementation of the various programmes.

The interesting contrast comes from places where local governance institutions have not helped in realising the growth potential. Banerjee and Laxmi

(2005) map growth with land tenure systems in different states and conclude that agriculture stagnated in districts which had a *zamindari system* of tenure which underlines the importance of land reforms in creating a favourable structure of incentives for growth. Land redistribution reinforces popular participation in decision making to make the local governance more responsive to the needs of the people and thus, can contribute to development.

From the policy perspective therefore, land reform is an important complementary policy to decentralisation. However, land reforms have not been very successful in several regions in the country for various reasons. But that does not imply that in these places *panchayats* cannot play a proactive role in development. If indeed rural asset distribution through land reforms is not a feasible proposition at this stage, then it is necessary to find alternative measures that would overcome the disadvantages arising from skewed distribution to avoid capture of public services by the landed elite. One way to deal with this is to empower the landless labourers and marginal farmers with human capital to match them with landed elite.

(ii) If the people do not have land or other assets and the only asset the people have is labour, it is important to enable them to increase their capabilities to enhance their freedoms. Education and skill development can enhance productivity and increase incomes of the people and thus, substitute land ownership. Education also contributes to greater participation of the people in decision making at the village *panchayat* level.

The analysis of the performance of *panchayats* in different states and regions in India shows that *panchayats* have been relatively more successful in contributing to development in places where the literacy rate and education standards were higher. Spread of education and health to the disadvantaged sections including the landless, small and marginal farmers enhances their productivity and incomes. It increases the participation rate of the people in local governance to make the *panchayats* more responsive to their needs and preferences. Better education to the disadvantaged sections makes the local governance as well as development inclusive.

Kerala presents the most successful case of *panchayats* contributing to development in India. In this, the part played by literacy and education of the people cannot be underestimated. High literacy rate and high degree of political awareness of the people in the state has enabled much greater participation in local governance than that is seen in other states. The large pool of retired teachers, officials and technical persons available in the state and the systems to harness their expertise in preparing and validating the people's plan has been the cornerstone in the developmental strategy in the state. Devolution of plan funds for spending at the local level was an important decision, but this could not have yielded the desired results had people's plan not been successfully designed and implemented, besides high degree of literacy and education was an important contributing factor to this.

The contribution of high degree of literacy and education in assisting the *panchayats* to successfully meet developmental challenges is also seen in the coastal districts of Karnataka. In terms of literacy rate and educational standards of population, the three coastal districts of Dakshina Kannada, Udupi and Uttara Kannada are comparable to Kerala in the south and Goa in the north of these districts. The analysis of village *panchayats* in Udupi shows that the revenue collection in the *panchayats* was substantially higher (Rao, Amar Nath, and Vani, 2003). There is considerable anecdotal evidence relating to various developmental initiatives taken

by the *panchayats* in the coastal districts of Karnataka mainly due to the better educational standards of population in the region.

From the policy perspective, this brings out two important focus issues. The first is that human development policies are complementary to decentralised development and the focus on ensuring access to education, skill development and healthcare with greater emphasis on preventative health are important. Focus on human development is a necessary complementary policy for *panchayats* to succeed in acting as catalysts in development. Second, it is important to find mechanisms to harness the pool of educated manpower that exists in rural areas and create groups that could provide technical guidance in preparing the projects, finalising the plans and ensuring their effective implementation. In fact, there is a case for creating specialised expert groups whose services can be contracted by the *panchayats*.

(iii) Does reservation of seats to women in the *panchayats* contribute to inclusive development? The 73rd Amendment to the Indian constitution mandated that no less than a third of the total number of seats in village governments (*panchayats*), and no less than a third of the office of chairperson of the *panchayat* should be reserved for women. In fact, the states of Bihar, Himachal Pradesh, Chattisgarh, Madhya Pradesh and Uttarakhand have gone a step further and have legislated for the reservation of 50 per cent of the seats in *panchayats*. Much of the descriptive literature has argued that reservation does not really result in ensuring greater inclusiveness of equality as the women who contest elections in reserved constituencies merely echo the views of their husbands or represent some powerful interests of the village. However, another strand of literature argues that reservations provide an opportunity for educated and committed women to take leadership roles in village *panchayats* and lead village development. They are less corrupt and take into account the concerns of women in allocating resources and this will result in improving the quality of governance and ensure delivery of public services according to the felt needs of the people.

There are very few empirical studies testing the impact of women reservations on public service delivery. Chattopadhyay and Dufflo (2007) in their study of West Bengal and Rajasthan find that gender of the village president significantly alters the expenditure composition. In both West Bengal and Rajasthan, women complain more about drinking water, and naturally, expenditure allocations were significantly higher in *panchayats* with women *Pradhans*. In general, the expenditure pattern corresponded to the general complaints of women and based on family considerations. They show that reservation for women and scheduled castes (SCs) makes a significant difference in expenditure allocations. Both women and SCs spend more on services they want (Chattopadhyay and Dufflo, 2007). They argue that properly implemented reservations can benefit distributive equity and service delivery in a decentralised system. In contrast, Ban and Rao (2008) do not find evidence to the effect that reserved women presidents ensure delivery of public services congruent to the preferences of women in the southern states. They find that the background of the woman president as well as the nature of village institutions, particularly the caste structure does impact on public service delivery. Generally, women presidents when they are more experienced are effective. Similarly, in villages where upper castes dominate, women presidents are less effective which may be due to the fact that caste structures may be correlated with structures of patriarchy. The problem is particularly severe in places where the caste (*khap*) *panchayats* have significant influence, where upper castes dominate and where parallel bodies have substantially usurped the functions of *panchayats*. Among the southern states, women presidents in reserved village *panchayats* in

Andhra Pradesh perform the worst, while in Kerala and Karnataka, they perform better which probably indicates that the system tended to mature when it is practiced for a longer time period as the reservation system has been in place much longer in Kerala and Karnataka than in Andhra Pradesh.

Many states have introduced rotation system in *panchayats*. The rotation system for short durations although provides opportunity to larger number of elected representatives to manage the affairs of the *panchayats*, however, is clearly undesirable. In particular, the rotation of *Pradhans* every one or two years, as done in Karnataka and Maharashtra, not only deprives them of the opportunity to gain valuable leadership experience, but also establishes and aggravates a perverse structure of incentives. With short terms, *Pradhans* tend to have a short term horizon and their focus invariably shifts towards making the gains in the short term rather than ensuring efficient governance and delivery of public services.

Considering the benefits of reservation, the Government of India has decided to introduce a constitutional amendment bill in the Parliament to enhance reservation of seats for women in *panchayats* to 50 per cent in all states. This is a welcome measure and surely will help in improving the governance in *panchayats*. The benefits of this will be even more if this is accompanied with measures at building capacity among elected women representatives.

(iv) One of the important features of successful *panchayats* is strong, visionary and committed leadership. One of the implementable rules of fiscal decentralisation is to have champions (Bahl, 2002). Leadership matters and it matters particularly in states where the literacy rates are low. While the availability of visionary and committed leadership is not a general phenomenon, but wherever it is found, it results in *panchayats* making significant contribution to the development of the village. Indeed, enlightened leadership not only helps the *panchayat* where such leaders exist, but also creates pressures in neighbouring *panchayats* to contribute to development. This is akin to the Salmon mechanism in which the performances of such leaders and best performing *panchayats* are benchmarked and their own locality is pressurised to perform according to the benchmark.

That leadership can play an important role in empowering people to remove their “unfreedoms” can be seen at various levels. Indeed, leadership played an important role in rejuvenating *panchayats* in Karnataka in the late eighties with Abdul Nazeer Sab, the Minister for Panchayati Raj and Rural Development in Karnataka playing a pivotal role. Indeed, it is often mentioned that under his initiative, the extent of decentralisation in Karnataka far exceeded that in other states and in many ways, his initiatives were adopted in the constitutional amendment. In fact, whenever an enlightened leader is in charge of the PRIs, the entire environment and the incentive structure changes, as was also seen when M. Y Ghorpade was the Minister for Rural Development and Panchayati Raj. In Kerala too, the role of leadership has not been very recognised, but the effort of a group of people under the leadership of I. S. Gulati and Thomas Isaac in designing and implementing peoples’ plan cannot be underestimated.

A classic example of what enlightened leadership can do make *panchayats* to become catalysts in development is shown in the case of *Hivere Bazar Panchayat* described above. It was the inspiring leadership of Popat Rao Bahuji Pawar, that helped to transform the village. There are several other instances where the local leadership has been responsible for delivering basic community services to the

people in the villages. Indeed, when an inspired leader takes charge and manages the affairs of the *panchayats* for five to 10 years, he/she sets the benchmark and creates systems for public service delivery. The people in the village expect the succeeding leaders to achieve the same level of services and the system will continue at least for some time even if the new leaders are not as committed and inspirational. It can also create a “Salmon mechanism” or a demonstration effect for the villages in the neighbourhood as described above.

While leadership in *panchayats* is important to make them developmental catalysts, it cannot create a sustained pressure. It is not possible to ensure that only inspiring leaders will get elected and become village *panchayat* presidents. In many villages, people elect their leaders not for their inspiring leadership but for many other considerations. Often, having a committed leader as a *village sarpanch* is a sheer matter of chance. Here again, better education and creating the system to make the information on the performances of different *panchayats* in delivering public services widely available to the general public can help to set benchmarks for the role of leadership itself. People surely would like to emulate successes and the examples of successful leadership can be useful in catalysing economic development.

(v) Some of the case studies presented in the earlier section shows that, contrary to the general impression, it is possible to raise revenues in *panchayats* and this is particularly true when the people in the villages are able to establish a direct linkage between tax payments and benefits received. The area-based property tax system implemented in Satara and Pune districts of Maharashtra described earlier has important lessons to offer for mobilising revenues in *panchayats* not only in other districts of Maharashtra, but in other states as well.

The important issue here is that designing a simple and implementable property tax system requires preparation of property tax code in each of the *panchayats*. This requires a detailed information system relating to the ownership of immovable properties, their locational features and quality of construction. Given the capacity constraints of the village *panchayats*, this can be facilitated by the state government creating a specialised agency for preparing the code for each of the villages. In doing this, it is important to understand the local conditions. This agency can also help in estimating the tax demand.

Introducing an incentive system to ensure better collection efficiency can be useful to augment the resources of the *panchayats*. A certain proportion of the grants to be given to the *panchayats* from the state governments can be kept separate for incentivising revenue collections. Incentives designed through matching grants linked to standardise collection efficiency worked out as indicated above. It is also possible to design graded incentives. For example, the *panchayats* with 50-75 per cent collection efficiency can be given one rupee grant for every additional rupee collected above 50 per cent collection efficiency. Those above 75 per cent collection efficiency can be given grant at higher rates, (say Rs. 1.50) for every additional rupee collected above 75 per cent collection efficiency. This can substantially augment resources for local public services in rural areas to ensure greater adequacy, efficiency, and accountability in local public service delivery.

(vi) Contrary to general impression, interesting examples of people voluntarily paying for public services is when they are faced with the acute problem of getting a basic requirement, like drinking water. Several of the *panchayats* have taken initiatives to approach various agencies including the state governments and

multilateral lenders, put in efforts to collect contributions from the villagers and have created economically sustainable systems of water supply including metered supply and proper pricing. An important lesson that comes out in the case studies presented in the earlier section is that the people are willing to work together and willingly make payments. In fact, one can also see inter-*panchayat* cooperation and coordination as seen in the case of Sanur village, which not only supplies water to the households in the village, but also in the neighbouring villages of Nitte and Miyyaru as well as parts of Kerala municipality. These case studies show that people would not only be willing to pay for the essential services such as water supply but would also ensure proper maintenance of the water supply system to ensure regular supply.

Some of the cases reviewed bring out the difficulties of village *panchayats* in providing the service even as the village community is willing to pay for it. The first and foremost is lack of information for the village *panchayats* on the existing sources of financing water supply schemes, and their lack of capacity to access the appropriate technology. Even when a state like Karnataka has a water supply and sanitation scheme, the *panchayats* do not have the information to access funds for the purpose. Second, some of the cases bring out the lack of sensitivity on the part of the state bureaucracy to the concerns of *panchayats*. The case study of Shiruguppi described earlier shows that the *panchayat* representatives had to undertake a hunger strike to persuade the state bureaucracy to provide the incremental finance needed to complete the water supply scheme taken up under the World Bank assistance.⁸

(vii) A recent example of advancing decentralisation effectively to rural local governments is in the case of Bihar, when confronted with large scale absenteeism in schools, which decentralised the powers to appoint teachers *Shiksha Karmis* and health workers at the district level. Since 2000, the Government of Bihar has entrusted a greater role to the *panchayats* in the decisions relating to the elementary education sector. The three important decisions in this regard include the constitution of *Vidyalaya Shiksha Samitis* to oversee the functioning of schools, appointment of a *Shikha Mitra* (para-teacher) in every primary school in rural areas of the state and adoption of education guarantee scheme with a clear role for PRIs at different levels of management. In 2006, the post of *Shiksha Mitra* which was a temporary position with a consolidated pay of Rs. 1500 appointed for 11 months was converted into a permanent position of *Panchayat Shikshak* superannuating at 60 years of age and with a salary of Rs. 4000 per month. The PRIs have been empowered to appoint these teachers. Primary teachers would be appointed at the *panchayat*, middle teachers at the block and secondary and senior secondary teachers at the district level by *gram panchayats*, *panchayat samitis* and *zila parishads* respectively for the rural areas. The appointments in the urban areas will be made by the urban civic bodies. Fifty per cent of the new recruits at the primary level would be women and three per cent of the jobs would be reserved for physically-challenged persons.

The empowerment of the *panchayats* to appoint teachers seems to have brought about a significant improvement in the education landscape of Bihar. The surveys by *Pratham* show that teacher absenteeism has shown a sharp decline and the educational outcome in terms of students' ability to read and comprehend and do

⁸ There is a larger issue of the state's inability to prevent pollution in the Krishna River which is a source of livelihood for several villages.

simple arithmetic has substantially improved. The surveys have also pointed out the need to develop the capacity of the newly appointed teachers.

(viii) Creating institutions and systems to share and learn from the experiences of one another can be an important way in which the village *panchayats* can build their capacity to meet various developmental challenges. At present, there are no formal or informal forums in which they can share their experiences and learn from one another. When the *panchayats* are confronted with difficulties in carrying out a developmental project, for example, they do not have a body from which they can seek advice to solve their problems. The experience of Shiruguppi village *panchayat* in Karnataka noted in the previous section shows that the even as the village *panchayat* members were advised by the Abdul Nazeer Sab Institute, the state bureaucracy was not very helpful. The experiences of the *panchayats* recorded in the previous section also shows that there are many village *panchayats* that have met with their developmental challenges in ingenious ways, and a platform for sharing these experiences could be extremely useful to make the village *panchayats* play the role of catalyst in development. In fact, horizontal learning has greater impact than advice given from above because this clearly demonstrates what other *panchayats* have succeeded in implementing. Therefore, lessons drawn from the actual experiences of *panchayats* provide confidence to similar *panchayats* for adopting them.

Dissemination of information can lead to demand for specialised services which the village *panchayats* should be able to avail. To begin with the state governments should provide this advisory service and eventually, these can become independent centres charging for their services and the village *panchayats* can avail these services by contracting them. There must also be an institutional mechanism to encourage interactions among village *panchayats* and foster cooperation among them.

Wide dissemination of the information on the experiences of *panchayats* will be helpful in raising the awareness of the people as well. As discussed earlier, according to Salmon (1987), voters benchmark the performances of *panchayats* with most efficient service delivery and pressurise their own *panchayat* to improve their services comparable to the benchmark. This, however, presumes that information is costless and free and is readily available. Unfortunately, no mechanism exists in any state to make the information readily and freely available to enable horizontal learning. In fact, there is considerable incentive not to make the information available because that will put pressure on the *panchayat* leadership to perform better. It is here that both the state government and NGOs have to play an important role in disseminating information and lessons of experience of other *panchayats* in dealing with major developmental issues and the information on the agencies the village *panchayats* should approach to solve financing and implementing issues relating to developmental projects they intend to implement.

(ix) An important precondition for implementing grassroots planning is the availability of demographic, geographical, and economic information at the village *panchayat* level. It is also important to have information on design and implementation aspects of various central and state schemes and programmes implemented at the village *panchayat* level so that the *panchayats* can take advantage of the schemes in the most efficient manner. The report of the committee on grassroots planning has emphasised the need to collect information for the formulation and implementation of the development plans and the importance of

having a proper information system cannot be overemphasised. The information on the land holdings and various properties are important to design a simple area based property tax system and information on the common property resources can be helpful in ensuring that these are used by the community properly.

The above discussion shows that decentralisation to rural local governments can work as catalysts in development, if both design and implementation aspects are ensured to create an appropriate incentive structure. The paper has pointed out some of the major shortcomings in the prevailing system of decentralisation and has identified the reform areas. The most important issue to be realised is that the policy makers must have confidence in the ability of the village *panchayats* to carry on the developmental mandate. This is not an option but an imperative, for there is no other way to deal with inclusive growth. In fact, if local governments have not delivered, the blame lies squarely with both central and even more, state governments, because they never reposed confidence in the *panchayats*, did not create enabling environment for the *panchayats* to function well, and never fully empowered them. The preceding discussion underlines the areas where reforms have to be undertaken to empower *panchayats* to be the catalysts in development and increase opportunities and freedom of the people, particularly those of the disadvantaged sections of society.

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