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PANCHAYATS, COMMUNITIES, AND THE RURAL POOR IN INDIA

Raghav Gaiha* and Vani Kulkarni**

ABSTRACT

Despite large outlays, poverty alleviation measures have not made a significant dent in rural poverty in India. Disillusionment with these measures culminated in the 73rd Constitutional (amendment) Act in 1993, designed to revitalise the Panchayat system (consisting of elected Panchayats at different levels) in India. The focus of the present study is on its poverty alleviating potential. Emphasising that decentralisation is essentially a political process, the political economy considerations in the framing of this Act and the state conformity Acts, and their implementation are critically reviewed. The nature of the organisational structure of the Panchayats that has evolved is of considerable importance in assessing their role as implementing agencies of anti-poverty and other rural development programmes. Yet another major concern is that the community's imperfections act as an impediment in poverty alleviation. Although there are important informational and administrative advantages of community involvement in the design and implementation of anti-poverty and other related programmes, some limitations must not be overlooked (e.g., "capture" of the Panchayats by a few locally influential persons). Finally, some key strategic options are identified based on a detailed review of recent empirical evidence. Of particular significance is a strong coalition of the rural poor. Although, in general, prospects of collective action on the part of the rural poor (who are divided by caste and religion) are limited, it is argued that there are some grounds for optimism. The overall conclusion is that, although the Panchayat system has not benefited the poor except in a few cases, its potential for poverty alleviation is hard to dispute.

Introduction

Despite large outlays, poverty alleviation measures have not made a significant dent in rural poverty in India.¹ Disillusionment with these measures culminated in the 73rd Constitutional (amendment) Act in 1993, designed to revitalise the Panchayat system (consisting of elected Panchayats at different levels) in India. As elaborated below, in some respects it is an important landmark. The focus of the present study is on its poverty alleviating potential. Emphasising that decentralisation is essentially a political process, the political economy considerations in the framing of this Act and the state conformity Acts, and their implementation are critically reviewed. Besides, the nature of the organisational structure of the Panchayats that has evolved is of considerable importance in assessing their role

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as implementing agencies of anti-poverty and other rural development programmes. Yet another major concern is that the community's imperfections act as an impediment in poverty alleviation. Although there are important informational and administrative advantages of community involvement in the design and implementation of anti-poverty and other related programmes, some limitations must not be overlooked (e.g., "capture" of the Panchayats by a few locally influential persons). Finally, some key strategic options are identified based on a detailed review of recent empirical evidence. Of particular significance is a strong coalition of the rural poor. Although, in general, prospects of collective action on the part of the rural poor (who are divided by caste and religion) are limited, it is argued that there are some grounds for optimism. The overall conclusion of the present study is that, although the Panchayat system has not benefited the poor except in a few cases, its potential for poverty alleviation is hard to dispute.

The scheme is as follows. In Section 1, the rationale of decentralised redistribution with a view to poverty alleviation is critically reviewed; this is followed by a brief exposition of community imperfections that hinder the potential of decentralisation in this context, and an alternative perspective that emphasises the assignment of control-rights in decentralisation. Guided by the view that decentralisation is essentially a top-down affair (shaped largely by the narrow self-interest of political leaders), the parliamentary debates that led to the 73rd Constitutional (amendment) Act of 1993 are reviewed in Section 2. The aberrations and deficiencies of the new organisational structure of the Panchayats that emerged following this Act in different states are discussed in Section 3. Whether devolution of the responsibilities for implementing anti-poverty programmes to the Panchayats depends largely on the nature of the political regime is examined in light of a comparative analysis of three Indian states in Section 4. Section 5 focuses on the targeting of Jawahar Rozgar Yojana (JRY)—a major rural public works programme implemented by gram/village Panchayats. This analysis suggests that the exclusion of the poor is attributable to both deficiencies in its design and implementation. Two innovative experiments in Kerala—one concerned with sustainable development and another with self-organisation of the poorest communities—are reviewed in Section 6. The results were mixed. While there is some evidence of community "failure" in dealing with temporal and spatial externalities without the help of an external agency, the second experiment that involved the poorest communities was a successful one. Section 7 focuses on the role of the Panchayats in highly segmented communities in Uttar Pradesh, with strikingly different outcomes for those at the lower rungs of the caste hierarchy. As the processes underlying these outcomes enrich our understanding of why only a small segment of the rural poor benefits from anti-poverty interventions, a detailed review of this case study is carried out. Section 8 is devoted to a review of the evidence on decentralised corruption, the nature and extent of rent-seeking and "capture" of the Panchayats by a few influential persons and problems of supra-local control and coordination. Whether the Panchayats are able to function

effectively as a poverty-alleviating agency depends to a large extent on whether they have adequate resources to carry out this function with a certain degree of financial autonomy. Some recent evidence reviewed in Section 9 points to limited and tardy fiscal devolution. Section 10 focuses on strategic options that could enhance the effectiveness of the Panchayats in poverty alleviation. Arguing that a strong coalition of the rural poor has a crucial role, some key elements in building and strengthening such a coalition are emphasised. Some concluding observations from a broad policy perspective are made in Section 11.

1. Decentralisation-Meaning, Rationale, and Control-rights

A. Meaning

Decentralisation is interpreted in different ways. It may refer to privatisation, delegation, deconcentration, or devolution. Privatisation refers to transfer of tasks formerly performed by state agencies to the private sector. Delegation denotes transfer of some responsibilities for development programmes or projects to parastatal agencies. Deconcentration involves the dispersal of agents of higher levels of government into lower levels of decision-making. Devolution refers to transfer of political, fiscal, and administrative powers to lower level authorities, which are largely or wholly independent of higher levels of government (Manor 1999). Here decentralisation refers to devolution. An important point to note, however, is that the content of decentralisation may vary in as much as the mixture of devolution of political, administrative, and fiscal powers differs. That the mixture matters in the context of rural poverty alleviation in India is elaborated below.

Decentralisation could entail transfers of power to different levels within a political system—regions, states, districts, and villages. The focus here is on Village Panchayats—an elected body with an important role in poverty alleviation—in a uniform three-tier system of Panchayats that was adopted in all Indian states following the 73rd Constitutional (amendment) Act.

An important feature of decentralisation that also impinges on its poverty alleviation role is that it is usually a top-down affair, guided mostly by the narrow self-interest of political leaders seeking legitimacy and mass support. The political dimension is thus an important one, and changing political circumstances and coalitions shape the nature and extent of decentralisation in important ways. Specifically, economic conditions are seldom crucial in decisions to decentralise. Nor is decentralisation a response to mass pressure from below. Decentralisation in India fits this description.²

B. Rationale

A central rationale of state intervention is to redistribute income and wealth for

poverty alleviation. Redistribution policies may take one of two forms. One set of policies is designed to provide basic primary goods/merit goods to individuals. These goods include health care and education. Another set of policies involves income maintenance. The first set of policies aims to provide minimum standard of access to primary goods. Since individual needs vary, this involves treating people unequally to ensure a more equal outcome. This may require direct provision of goods, rather than income support. The second set of policies, on the other hand, aims to redistribute income, rather than to ensure access to specific commodities. The informational requirements of these two sets of policies are thus different. As argued below, it may be also appropriate to assign these policies to two different levels of government.

Often a case is made out for assigning redistribution policies to the central government on two different considerations.³ One is that if the extent of income redistribution is left to different levels of government, one level could “undo” the redistribution by another. So there is a case for assigning such policies to a single level of government. Another consideration is that, if local redistributive policies induce a Tiebout process of migration, it could add to the costs of redistribution.⁴ Besides, a similar process of migration could restrict the use of redistributive taxes by local governments. In both cases, migration would limit the feasible range of redistributive policies, and involve some loss of efficiency.

A difficulty, however, with this argument is that it rests on a sharp separation of efficiency and distribution. In practice, the two aspects are inextricably mixed. This is illustrated by primary goods. Many of them are mixed goods in the sense that they contain public good elements but are also provided in part on distributional considerations. Consider, for example, education. Although distributional considerations are of considerable importance in its provision, it may also contain both national and local public good elements (e.g., curricula may be set nationally while each province chooses its own medium of instruction). Where the local public good element is of substantial importance, it could be assigned to local government, despite the redistributive aspect. Transfers from central governments could ensure that a desired level of spending is achieved and the efficiency costs of migration are minimised.⁵

Another view is that income redistribution is a local public good, as it is essentially a preference by some over others that displays the characteristics of non-excludability and non-rivalrous consumption. Equity and efficiency objective can thus be combined in a Pareto efficient redistribution.⁶ This, however, can be questioned on the ground that preferences are just one criterion for welfare judgement and there are other more appealing non-efficiency criteria (Sen 1980; Dasgupta 1986).⁷ In that case, equity is distinct from efficiency. If redistribution is not a local public good but a separate objective, it could be accomplished at any level of government.

So, assuming that redistributive goals are set by the central government, a case for their implementation by local governments rests largely on administra-

tive and informational considerations, as elaborated below.

Decentralisation allows cheaper gathering and processing of information for redistributive policies. However, this may involve a trade-off in terms of loss of central control, if local governments pursue their own priorities. In a principal-agent formulation, an issue is whether incentive compatible mechanisms can be designed to ensure that local governments (agents) pursue the objectives of the central government (principal). Some of the difficulties in designing such mechanisms arise from conflicting objectives of local governments, lack of information on costs and population characteristics, and different political ideologies of central and local governments. To some extent, however, independent yardstick information (e.g., age-specific enrolments in primary education for a given outlay) may help monitor administrative efficiency.

As noted earlier, local services include provision of mixed goods such as education. Although educational spending may give rise to positive externalities, the benefits from it are largely excludable and consumption of education is rival. A substantial amount of private spending would occur without the involvement of government. So at the local level, public provision of private goods is a response to the externalities they generate or distributional considerations. If the redistributive priorities are set at the national level, informational advantages favour implementation at the local level, despite loss of control.⁸ If, for example, informational requirements of policies aiming at discriminating between the different needs of individuals for primary goods are usually much greater than those for income support, the case for local provision of the former is stronger, subject of course to national guidelines and periodic monitoring.

An issue here is the superiority of the local government over a provincial or regional branch of the central government in information gathering and processing. In principle, if the latter employed locally knowledgeable persons, they could perform this function equally efficiently without a clash of priorities. To the extent, however, the former is accountable to the local community, and the community is better informed to monitor and assess its performance, the local government is more likely to gather relevant information and to use it judiciously.⁹ A related question is whether there are any advantages in assigning redistributive policies with national priorities to local governments with revenue raising powers, as opposed to assigning them to, say, special locally elected boards (e.g., education boards) managing centrally set budgets. Two reasons favour assignment to existing revenue raising bodies: one is economies of scale in local administration, and another is the need for additional taxation to correct inappropriate national allocations, largely as a result of informational constraints (Helm and Smith 1989).

C. Community Imperfections

Given the focus on local communities and their centrality to the functioning of vil-

lage Panchayats, it is necessary to examine critically what they can and cannot do as cost-effective suppliers of services that are crucial to the well-being of the poor. Attention is drawn to the conditions under which provision of these services may fall short of what might be considered desirable.¹⁰

Available evidence points to the existence of reciprocal, contingent, and voluntary transfers among members of village communities (e.g., fishermen in Kerala, an Indian state). But such informal mechanisms tend to be restricted, fragile, and fail to protect the poorest. Not all risks are insurable in small communities. For example, covariate risks and repeated shocks are difficult to insure against. This implies that informal community mechanisms may be particularly fragile when they are needed most. Also, the proportion of the village community covered, especially that of the poor, may be low. There are several reasons why the poor are likely to be excluded. To cite one, in the event of a collective shock, holding on to whatever income one has is tempting and the commitment to share with others may be violated. Anticipating this, members of a risk-sharing group are likely to exclude those close to their subsistence margin (Morduch 1999).

In a continuous personalised interaction, multilateral reputation effects and sanction mechanisms have the desired effects in enforcement of contracts. The presumption, however, that honesty and trust would emerge naturally may be somewhat overly optimistic.¹¹ Moreover, multilateral sanction mechanisms require efficient multilateral communication. Some obstacles to the latter include: (1) members of a community may feel ashamed to confess that they have been cheated; and (2) altruism may impair not just multilateral communication but also multilateral sanction systems—the victims of malfeasance may prefer to keep quiet and avoid punishing the malevolent actor and his family.

Small communities are more apt to produce collective goods mainly because the incentive for free riding is diluted, and negotiation costs are lower. Although a prior willingness to contribute, multiplex relationships and fewer coordination problems make cooperation a more likely outcome in small communities, it is not guaranteed. Moreover, the provision of collective goods may not be egalitarian in a context of acute socioeconomic inequalities. But any attempt to do so could weaken the community-based provision. Finally, in general, it is likely that village communities with high rates of illiteracy may not appropriately value externalities across space and time without the help of an external agency. All of these limitations must be borne in mind in assessing the poverty alleviating potential of the Panchayats.

D. Control-rights

Some recent contributions to the centralisation versus decentralisation debate have focused on allocation of control-rights in a framework of incomplete contracts. As this framework provides an alternative perspective on this debate, a brief review is given below.

The key question is which party in a collective enterprise should have the right to undertake certain actions. If contracts were complete (in the sense that *all* eventualities and contingencies could be anticipated), it would not matter which party were allocated that right, since the contract would specify what actions are required in specific circumstances. Although there might be efficiency implications of who undertakes what actions—since some may have a comparative advantage in specific spheres—the allocation would not affect the actions *actually* undertaken. If the contracts are incomplete, it matters who has the power to take action, since agents are guided by their own interests. In allocating the control-rights, therefore, the issue is which agent is likely to act in a desired way (or, to put it differently, in pursuing its own interest, promote the interests of the principal). In brief, the allocation of power matters precisely when it is not possible to specify in advance how that power should be exercised (Seabright 1994).

That this is an appropriate framework for studying decentralisation could be justified on the following grounds.¹² Allocation of power at different levels of government matters since citizens cannot take for granted that bureaucrats and politicians at the central level would act in their interests. Nor would constitutional guarantees make a significant difference. Whether allocation of power to lower levels of government under certain conditions would yield better results is thus of considerable interest. The focus is on re-election prospects of governments at different levels as a key determinant of their performance. The implications of the contractual framework and the conclusions from the models employed point to useful extensions or revalidation of the decentralisation theorem (Oates 1972, 1999).

This framework is a useful one in understanding better the areas covered and the concerns expressed in the Parliamentary debates that led to a uniform structure of the Panchayats with a detailed demarcation of responsibilities at different levels. Why, for example, most participants favoured quotas for women and Scheduled Castes (SCs)/Scheduled Tribes (STs), regardless of political party affiliation, had more to do with electoral arithmetic than with a genuine concern for the deprived.¹³ There is, however, a risk of overstating the usefulness of this framework in its present form. In some respects, it is highly stylised. The *actual* assignment of control-rights, for example, may diverge from the legislated one. More specifically, under conditions of extreme socioeconomic inequality, the control-rights assigned to a local government may be "captured" by a group of locally influential persons. What is implied here is that the battles for control-rights may be fought at different levels, for instance, at the central, state, district, block, and village levels, and among different groups such as politicians, bureaucrats, and local elites. The focus, therefore, on legislated assignment of control-rights and on whether any particular group of electors has a decisive role in the re-election of a government may be limiting. A broader framework designed to address the concerns sketched above may yield richer insights into the roles and functioning of governments at different levels.

2. Consensus or Dissent?

A. Evolution

The First Five Year Plan drew pointed attention to the need for reviving the Panchayats in order to promote the participation of the community in rural development. In pursuance of this goal, the Balwantrai Mehta Committee, appointed in January 1957, advocated administrative decentralisation, assigning a key role to elected bodies at the block (samiti) level. Within a decade, 90 percent of the rural population was covered by the Panchayats. However, the organisational structure and the activities varied among the states. Enthusiasm turned into disillusionment, as the Panchayats were a dismal failure. Much of the failure was due to lack of clarity about their role, bureaucratic resistance, meagre resources, and domination of the local elite.

The Asoka Mehta Committee, appointed in December 1977, carried out a review and made detailed recommendations. In fact, many of the important provisions in the 73rd (amendment) Act (e.g., quotas for SCs/STs, periodic elections, adequate administrative and other support staff, and financial resources) can be traced to them. A difference, however, was the proposal of a two-tier structure, limited to the district and block levels, with the former cast in a key role. Although the recommendations of the Asoka Mehta Committee aroused a great deal of interest, they did little to revive the Panchayats.

Following the recommendations of the G.V.K. Rao Committee in 1985, the Government of India appointed another committee, headed by Dr. L.M. Singhvi, to prepare a comprehensive report on how this could be accomplished. This committee recommended that the Panchayats should be constitutionally recognised, protected, and preserved. Among other specific recommendations, a strong case was made for a constitutional provision ensuring free and fair elections at regular intervals. Guided by these recommendations, the central government introduced the 64th Amendment Bill in Parliament in 1989. This was a comprehensive Bill, as it proposed a uniform three-tier structure for the Panchayats, quotas for SCs/STs and women, a fixed duration of 5 years for the Panchayats at all levels, mandatory elections within 6 months of their dissolution, and a demarcation of areas of responsibility for the Panchayats at different levels. Although it was passed by the Lok Sabha on August 10, 1989, it failed to muster necessary support in the Rajya Sabha (the Upper House). Consequently, it could not be enacted. Given the *timing* of this Bill, the opposition to it reflected largely the concern that its smooth passage would give a major advantage to the ruling Congress Party in the forthcoming elections.

Soon after it returned to power in June 1991, in order largely to impart credibility to its concern for rural development, especially poverty alleviation, Congress introduced a new constitutional amendment (i.e., the 72nd Amendment) Bill on September 16, 1991. This was referred to a Select Committee and then to

a Joint Parliamentary Committee in December 1991, for a detailed examination. The Joint Committee submitted its report in July 1992. After a lively debate, the 72nd Amendment Bill was finally passed with a near unanimity in the Lok Sabha on December 22, 1992, and in the Rajya Sabha on December 23, 1992. As a result of vigorous lobbying, this Bill was ratified by 17 states within a period of 4 months. The President of India gave his assent to the Bill on April 20, 1993, and the 73rd (Amendment) Act came into effect on April 24, 1993. Undoubtedly, while there was a broad consensus in favour of strengthening the Panchayats, serious concerns about their limited ability to fulfil the roles assigned to them remained largely unresolved.

B. Debates

Counting only those who made *substantive* contributions to the debates (in the Lok Sabha), 33 Members of Parliament (MPs) participated in them during December 1992. The participants represented a broad spectrum of political parties. A large majority of them (about 60 percent), however, belonged to three major parties viz. Congress (I), Janta Dal, and Bhartiya Janta Party.

Despite the fact that a broad measure of consensus for the Bill was achieved through the Joint Parliamentary Committee, a wide-range of views were expressed. A major apprehension that dominated the Lok Sabha debates was encroachment of the central government into areas of state policy and control. There was no *specific* basis for it except the belief that the role of the central government should be confined to the provision of financial support for the Panchayats, while their functioning and priorities should be the exclusive concerns of the state government. Not only does this apprehension overlook that Article 40 of Directive Principles of State Policy in the Indian Constitution enjoins both the central and state governments to promote the Panchayats but also the discretionary power vested in the state legislature by the 72nd (Amendment) Bill. But the debates also brought out a few major legitimate concerns. One related to the mode of election of Chairpersons of the Panchayats at different levels. Another focused on inadequacy of funds for the expanded responsibilities of the Panchayats. Before taking up these and other major concerns, we consider whether the views were divided along party lines.

The issues/areas that dominated the debates were essentially: (1) mode of election of Chairpersons, (2) conduct of Panchayat elections, (3) quotas for the poor, (4) allocation of responsibilities among the Panchayats at the three levels, (5) relationships of the Panchayats with the state government (including the district administration), and (6) inadequacy of funds at the disposal of the Panchayats and need for greater financial devolution. Although the views of the speakers on some of these issues/areas differed, there was little evidence of a division along party lines. Most speakers, for example, supported the quotas regardless of party affiliation. While some were apprehensive of erosion of state authority, others

expressed serious reservations about the role of state governments in curtailing the powers of the Panchayats. Most speakers drew attention to the inadequacy of funds and emphasised the need for greater financial devolution.¹⁴

C. Features

The 73rd Constitutional (Amendment) Act is an important landmark, as it provides for a uniform three-tier structure of the Panchayats—specifically at the district, block, and village levels—mandatory elections after five years, proportional representation of the Scheduled Castes (SCs) and Scheduled Tribes (STs), a quota for women, periodic auditing of accounts, and specification of areas of responsibility of the Panchayats at the three levels. As these provisions are essentially broad guidelines, and the Panchayats derive their authority from state Acts, following the 73rd (Amendment) Act in April 1993, each state was required to modify its existing Acts accordingly.¹⁵ While *most* states modified their Acts without much delay, the Panchayat elections and devolution of power were far from smooth (Gaiha et al. 2000).

As discussed below, despite the flexibility and the differences in the political regimes, there is a striking similarity in the organisational structure(s) enacted. Some of it was of course unavoidable in view of the provisions in the 73rd (Amendment) Act. The salient features are: a three-tier structure, comprising district, block, and village Panchayats with the Gram Sabha/Village Assembly as the foundation, direct and periodic elections, quotas for Scheduled castes (SCs) and Scheduled Tribes (STs), backward classes and women, delineation of major areas of financial and administrative responsibilities for each tier, budget and audit requirements, a (supposedly) rational basis for sharing of resources between the state and the Panchayats, provision for executive and support staff, and a somewhat stringent procedure for dissolution/supersession of the Panchayats and mandatory elections within six months of dissolution. But some specific aspects within this broad structure were either neglected or remained largely unresolved. Even though the Gram Sabha is visualised as the foundation of this structure, its power and functions are vague and limited.¹⁶ None of the state Acts made any attempt to narrow down the *areas* of financial and administrative responsibilities, let alone specify functions and duties, by the level of the Panchayat. All that was done was to reproduce unchanged or with minor modifications the lists from the 11th Schedule (added to the Constitution following the 73rd (Amendment) Act). That some of the fuzziness was deliberate cannot be ruled out as a more specific delineation of functions and responsibilities is arguably feasible. Nor was much attention paid to minimising bureaucratic domination and political interference. Maharashtra, for example, was the only state which excluded local MLAs, MLCs, and MPs from the membership of the Panchayat Samiti and Zilla Parishad. Also, the Collector was not assigned any formal role. But, at the same time, the responsibility for two centrally sponsored poverty alleviation schemes, the Integrated

Rural Development Programme (IRDP) and Jawahar Rozgar Yojana (JRY), remained vested in the District Rural Development Agency (DRDA), which functions independently of the Zilla Parishad. Although financial viability of the Panchayats—especially of the Gram Panchayats in the context of their expanded role—figured in the debates, the concerns of the state Acts were confined largely to a more rational allocation of resources between the state and the Panchayats. Given that many states are themselves in deficit, the deficit at the Panchayat level is likely to persist regardless of the allocation criteria. The more important issue, therefore, is whether it is feasible to enlarge the resources through, for example, a wider range of taxes and fees levied and collected by the gram Panchayats.¹⁷

3. Organisational Structure

As the new structure was implemented, serious aberrations came to light. These are based on a review of state conformity Acts and their implementation in three states viz. Uttar Pradesh (UP), Karnataka, and Maharashtra.¹⁸ As some of these aberrations have serious implications for the implementation of anti-poverty programmes, a critical review would help us to better understand the outcomes.

A. Re-assignment of Responsibilities

Out of all areas assigned to the Panchayats in the UP Act, only rural sanitation was *in fact* assigned to them. All other areas remained under the overall control and supervision of district/state agencies. To illustrate, the District Agriculture Officer was in charge of agriculture; an Assistant Engineer in Minor Irrigation Department had the overall responsibility for minor irrigation schemes; the Deputy Director (Extension) was responsible for land reforms; the General Manager of District Industrial Corporation had overall responsibility for rural industries; and so on. Above all, given that the District Magistrate is Chairman of the District Rural Development Agency/ DRDA and District Planning Committee/DPC, and the CEO of District Panchayat (*Zilla Parishad*) is subordinate to him in the official hierarchy, overall responsibility for some of the most important programmes vests in the District Magistrate. That the bureaucracy (or, more generally, official agencies) could overextend its (their) domain(s) in violation of the state Act had a lot to do with an unstable party coalition (between the Samajwadi Janta Party and Bhartiya Janta Party) and unsettled conditions in the hill areas.

The Karnataka case points to other sources of aberration: relative bargaining strengths and skills of the Panchayats at different levels. Given a relatively stable political environment and a well-carved out role for the bureaucracy, the battlefield shifted to the Panchayats. As it turned out, most of the major schemes were monopolized either by the district Panchayats/zilla Panchayats or block Panchayat/taluk Panchayat, especially the latter, with a minimal role for the vil-

lage Panchayats. Within agriculture, maintenance of agricultural seed farms was assigned in the state Act to both the zilla Panchayat and taluk Panchayat, but is in fact handled by the former; within animal husbandry, improvement of livestock, promotion of dairy farming, poultry and piggery were assigned to the gram Panchayat, but are in fact dealt with by the zilla and taluk Panchayats; promotion of rural industries is assigned to all levels of the Panchayats, but is in fact handled only by the zilla Panchayat; and, finally, while the implementation of the JRY is in accord with the provision of the Act that it be handled by the gram Panchayat, the responsibility for land reforms remains to be transferred.

B. Incentive Compatibility

Incentive compatibility mechanisms take a variety of forms. The issue is whether there are incentives for the elected representatives to respond to the needs of the community, especially the poor, or, more specifically, whether the state Acts ensure that programmes assigned to the Panchayats will be implemented in accordance with the needs or views of the community. Both the 73rd (Amendment) Act and the state Acts emphasise the key role of the gram sabha (the village assembly) in this regard. Specifically, two meetings a year are mandatory. All development and other activities, and financial statements must be reported at these meetings. Elections after five years are mandatory. As these enforcement mechanisms may not work well, the UP and Karnataka Acts also provide for dismissal of the chairperson following a motion of non-confidence by the gram sabha. While these provisions cannot be dismissed as inconsequential, it would be naïve to overstate their importance. There are a few other complications as well. Note first that, since the Gram Panchayat is cast in a supporting role to the DRDA in implementing the JRY, it is unlikely that community needs would be accorded due importance (as the DRDA is not accountable to the community in the way gram Panchayats are).

Also, while the state Acts provide for dissolution of the gram Panchayats (as well as of the Panchayats at higher levels) for not fulfilling their roles, similar provisions are lacking for the official agencies (such as the DRDA). A similar incompatibility exists between the elected representatives of the gram Panchayats (as well as for the Panchayats at higher levels) and support staff drawn from state government departments. The incompatibility is more glaring at the level of the CEO (of the zilla Panchayat). The CEO is usually a member of the civil service and is appointed by the state government. Although he or she is expected to work under the overall supervision of the chairperson, transfer and promotion decisions vest in the (parent) state department. Thus a dual authority structure prevails. As a result, there is often dissonance between the CEO and the chairperson, with the former playing a more independent role than required. It may nevertheless be feasible to devise a common set of performance indicators reflecting more transparently the community needs both for the Panchayats and the official agencies on

the one hand, and the elected Panchayat members and support staff on the other, to circumvent the incentive incompatibility. Achievements could then be judged with those of others in the peer group (say, in a neighbouring group of villages).¹⁹ But this presupposes that monitoring and evaluation systems are already in place.

C. Accountability

Although there is some overlap between incentives and accountability mechanisms, the latter are a subset of the former and may even be mandatory.

Accountability of the Panchayats could be viewed from two perspectives: one is that of the funding and higher authorities (in the present context, the state or central government) and the second is that of the community (in the present context, synonymous with the gram sabha). In either case, accountability has financial and administrative aspects. Here we focus largely on the financial aspects.

The state Acts emphasise financial accountability of the Panchayats to the funding authority and not so much to the community. This is reflected in the importance given to financial reporting, preparation of budgets, and auditing of accounts at each level of the Panchayat. The concern is not limited to the balancing of the revenue and expenditure but extends to compliance of expenditure with the guidelines or norms prescribed by higher authorities such as the DRDA for various schemes. For example, the distribution of expenditure on the JRY between wages and material costs must be 60:40. It is, however, debatable whether adherence to such rigid norms has any economic justification. Further, as a consequence, the limited autonomy that the Panchayats are permitted tends to delay implementation.

Serious doubts persist about the accountability of the gram Panchayat to the gram sabha, despite the key role assigned to the latter and specification of its power and functions, for the following reasons. First, it is not obvious whether the gram sabha will be able to perform the role assigned to it in villages without any tradition of corporate institutions or collective decision-making. Lack of familiarity with the format and procedures of the gram sabha meetings may turn out to be a serious impediment. Second, specific provisions for maintaining the minutes of gram sabha meetings and for displaying their decisions in public places are missing. That these matter does not require elaboration. Third, in the absence of a monitoring system, it is not obvious how the gram sabha will check whether the expenditures are in accordance with the decisions taken. Fourth, in case there is deliberate default (e.g., embezzlement of funds), the gram sabha does not have the power to dissolve the gram Panchayat. Five, whether five yearly elections will enforce greater accountability of gram Panchayats in general seems unlikely. Specifically, when there is a multiplicity of goals and some are vaguely defined, it is difficult to assess the performance of an agency.²⁰ Also, to the extent that multiplicity of goals implies excessive responsibility, each activity has a relative-

ly small weight in the decision of voters.²¹

4. Elites, Regimes, and the Poor

A. Framework

Decentralisation is essentially a political process as it involves distribution of power and resources, both among different levels of the state, and among different interests in their relationship to ruling elites, locally as well as nationally (Crook and Sverrisson 1999). What is central to it is, therefore, the nature of the politics of central-local relations. There are two key elements: (1) the configuration of local power structure, and (2) sources of the power bases of the national ruling elite, specifically the nature of alliances with local or regional elites.

An issue connected with the first element is whether capture of local governments by the local elites is inevitable, given an antagonistic relationship between them and the dominated groups (i.e., the poor and vulnerable). Some evidence from the Indian state of West Bengal points to a complex relationship.²² In a competitive political system, the ruling Communist Party consolidated its position by forming a broad-based alliance of the poor, middle peasants and salariat, and in the process supplanted the old landlord class (or, the local elite).²³ The role of the second key element—the interrelationships between national and local elites—is no less complex. Three distinct scenarios are: (1) the ruling elite or central authority seeks to build its power bases through an alliance with regional or local elites that are supportive of its interests and enjoy some autonomy; (2) the central elite challenges or circumvents locally powerful groups; and (3) the ruling elite consolidates its position in a society where local elites do not have significant autonomous power.²⁴ In the first scenario, there is bargaining and cooptation, and devolution of power and allocation of resources. In the second, there is ideological rivalry, class and ethnic conflict, and deep distrust between elites at different levels of government. The challenge to entrenched regional and provincial elites may follow a popular revolution or the coming to power of social democratic or communist parties. A mechanism is a centrally funded anti-poverty strategy, with the implementation assigned to decentralised bodies in a tightly controlled framework. In the third scenario, decentralisation is predominantly of the deconcentration type, indicative of the power and effectiveness of the regime down to the local level. While pro-poor outcomes are not ruled out, there is a danger of consolidating a system of corrupt patronage-based linkages.

Although this is a useful framework, it has certain limitations. One is the neglect of the role of the bureaucracy. As elaborated below, in a fragmented political system, it could have a decisive role in determining the nature and extent of decentralisation. A second limitation is that it does not take into account differences in the nature of the political regime. Specifically, in the context of decentralisation in West Bengal, the supplanting of the old landlord class was directly

connected to the nature of the political regime. Finally, the framework proposed does not allow for changes in political configurations and coalitions of various groups over time, resulting sometimes in a cycle of decentralisation-centralisation-decentralisation.

B. Evidence

In 1978, a leftist coalition, the Left Front, led by the Communist Party of India (Marxist), CPI (M), came to power in the Indian state of West Bengal. In order to challenge the power of the Congress party and the landlord classes in the rural areas, the Left Front sought to create a strong base by devolving the implementation of development programmes to village Panchayats and by mobilizing the poor to participate in them. Empowerment of poor and landless peasants was meant to give mass support to the CPI (M)'s radical agrarian reform programme. This programme was designed to restructure the semi-feudal basis of rural society through protection to sharecroppers and land redistribution.

Several indicators confirm pro-poor aspects of the devolution. In the Birbhum District, for example, at the village Panchayat level, the proportion of Scheduled Caste and Scheduled Tribe (SC/ST) rose from 34 percent in 1977 to 41.5 percent in 1988. Using another classification, 44.3 percent of all village Panchayat members were small peasants, sharecroppers or agricultural labourers, or a combination of these, in 1988.²⁵ Female participation, however, remained low.

Higher representation of the poor did not imply greater participation in Panchayat meetings. SC/ST members seldom spoke, and when they did they were ignored (Westergaard 1986). But there were other changes that compensated the poor or the disadvantaged (e.g., expansion of employment opportunities and higher wage rates). A survey revealed that a vast majority (78 percent) of landless men attributed significant changes to the Panchayat system, as did a larger majority (84 percent) of SC/ST respondents. The female respondents were less appreciative.²⁶

But there is more to the pro-poor outcomes in West Bengal. As discussed below, the nature of the political regime also had an important role.

Following Kohli's (1987) important study, it is arguable that along with the nature and extent of devolution, some characteristics of the political regime make a significant difference in poverty alleviation. Accordingly, the focus here is on the latter.

The analysis is based on field-work in three Indian states viz. West Bengal, Uttar Pradesh (UP), and Karnataka during 1978-79 and 1981. During this period, these states were ruled by three different political parties, with varying degrees of commitment to and capacity for redistributive reform. Their performances in land reforms, small farmer schemes, and rural public works are assessed. Four regime characteristics were considered: leadership, ideology, organisation,

and the class basis of the party.

Of these states, the performance of West Bengal's Communist government was most impressive. The success of the Communist Party in poverty alleviation was due to (1) a coherent and stable leadership, (2) a clear pro-lower class ideology, and (3) strong grassroots-level organisation. However, while the Communist Party successfully carried out tenancy reforms, its record in redistributing surplus land was disappointing. In part, this was because of the poor quality of land records. But, more fundamentally, it reflected the limited redistributive intent of the Communist Party in a democratic setting.²⁷ In sharp contrast, the Janta regime in UP was characterised by a fragmented leadership, confused ideology, and little or no organisational base. Not surprisingly, therefore, the poverty alleviation record of this regime was dismal. The Karnataka case lies somewhere in between. Under the Congress government, there had been a modicum of redistributive success. In any case, a weak organisation—dominated by propertied classes—could not support drastic redistribution.

Although this is a persuasive analysis, its limitations are: (1) it does not probe whether there were bureaucratic impediments; (2) it is somewhat narrowly focused, as it does not cover health and education programmes; and (3) it does not probe the nature and strength of coalitions that are activated by specific anti-poverty interventions, with the potential for obstructing them.²⁸

5. Exclusion of the Poor

Rural public works are a major component of poverty alleviation strategy in India. The Jawahar Rozgar Yojana (JRY), the largest such programme, was launched in 1989, following the merger of the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee programme (RLEGP). From 1992 to 1995, total allocation for the JRY rose from Rs. 11,345 million to Rs. 13,382 million (at 1980-81 prices), registering an increase of about 18 percent. Person days of employment generated rose from 782,10 million to 894,72 million, implying a growth of 14.40 percent. A disaggregation of the participants into poor and non-poor, however, reveals serious targeting failures. A review is carried out here to assess whether these failures are associated with the design and implementation of this scheme. Since the implementation at the village level is the responsibility of village Panchayats, an attempt is made to examine the extent to which the weak and ineffective functioning of the Panchayats is linked to the targeting failures.

A. Features

The JRY aims at poverty alleviation through creation of supplementary employment opportunities for the rural poor during agricultural slack periods. Other objectives are the creation of social assets and a positive impact on agricultural

wage rates. In recruiting participants, preference is given to members of Scheduled Castes (SCs) and Scheduled Tribes (STs) and 30 percent of the employment opportunities are reserved for women. The central assistance to the states or union territories is allocated on the basis of proportion of rural poor in a state or union territory to the total rural poor in the country. District-wise allocations (in a state) are on the basis of an index of backwardness which takes into account the proportion of rural SC/ST population and inverse of agricultural production per agricultural worker, with equal weights.

This is a centrally sponsored scheme, in which the centre contributes 80 percent of the total outlay. The responsibility for implementation vests in the District Rural Development Agency (zilla Parishad) (district Panchayat) at the district level, and the gram or village Panchayat at the village level. An Action Plan is prepared by the former and, after necessary approval, it is handed down to the latter for implementation.

The analysis is based on data collected by the Ministry of Rural Development's *Concurrent Evaluation of the JRY*. The *Evaluation* assessed JRY implementation in 4,406 village Panchayats in 886 blocks of 448 districts all over the country during January to December 1992. Although this survey precedes the implementation of the new Panchayat system, the wealth of data yields useful insights into the functioning of the Panchayats and implementation of the JRY.

B. Targeting

One of the main goals of the JRY was to provide employment opportunities to the very poor during agricultural slack periods. Targeting by the JRY of the acutely poor—those with an annual income of less than Rs 4,800—was dismal. This proportion ranged from 1.5 percent in Haryana to 37 percent in Rajasthan, and the median value was barely 19 percent in Gujarat. The targeting of the poor, however, is much less unsatisfactory. Although the range is still large, the median value (over 45 percent in Kerala) is substantially higher. The marked shift in the income distribution suggests that in general there is a large number of moderately poor among JRY workers. However, the fact that 11 out of the 15 states recorded a median value of less than 50 percent points to widespread mistargeting of the JRY (see Gaiha et al. 1998).

C. Methodology

Why did such a large, well-meaning project as the JRY fail to meet reasonable targeting standards? A part of the explanation can be found in the design of the JRY itself. The wage structure contained some flaws: the wage ironically was too high, divided inappropriately between cash and kind, and paid too infrequently to appeal to the very poor who required immediate access to hard earned income. Flaws in the implementing agency, the village Panchayat, exacerbated these diffi-

culties. All too frequently, the Panchayats were incompletely representative bodies; they possessed insufficient financial autonomy and were not sufficiently accountable to their members. With a view to assessing the contribution of these factors to targeting failures, some composite indices were constructed. Aggregation involves weights. As a choice of weights is problematic, the Borda rule is employed.²⁹

Some features of the JRY that impinge on its targeting include the ratio of JRY to local wages, periodicity of wages, and part payment in kind. A composite index of these design features, based on a descending order of the aggregate scores (the highest score gets rank 1), is constructed using the Borda rule.³⁰ It is hypothesised that the higher the index the lower would be the participation of the poor in the JRY. A composite measure of the functioning of the Panchayats is obtained by aggregating three aspects: representativeness, financial autonomy, and accountability. Representativeness is measured in terms of proportion of chairpersons of the Panchayats with landholdings of one hectare or less. Autonomy is measured in terms of proportion of taxes, fees, and cesses levied by the Panchayats. Accountability is measured in terms of proportion of village assembly meetings in which the action plan was discussed. The aggregate scores are ranked in ascending order to yield an overall measure of the functioning of the Panchayats. It is hypothesised that the higher this index, the higher would be the share of poor participants. Violations of guidelines and procedures gives further insights into the functioning of the Panchayats. One is use of private contractors despite instructions to the contrary. Another is non-availability of muster rolls. By aggregating these scores and ranking them in ascending order, another overall measure of the functioning of the Panchayats is obtained. The higher this index, the lower would be the share of poor participants.

D. Findings

Among the five worst cases of JRY targeting, the Borda ranks are clustered close to the middle or the upper limit (see Gaiha et al. 1998). Thus, an association between JRY targeting and aspects of the design of this scheme cannot be ruled out. Moreover, among the three best performers, two had very low ranks while one was above the middle. Thus, the overall effect of the design of the JRY was broadly consistent with that hypothesised.

Three of the five worst performers' ranks (based on a composite measure of the functioning of the Panchayats) were low. By contrast, two of the three best performers' ranks were low. It follows, therefore, that this measure of the functioning of the Panchayats does not discriminate unambiguously between the worst and best performers. The alternative measure, however, discriminates better. Among the worst performers, three states had high Borda ranks while among the best two had low ranks (for details see Gaiha et al. 1998).

In sum, composite measures yield useful insights into the mistargeting of

the JRY. It is not so much a specific deficiency in the design or implementation of this scheme as *simultaneous* occurrence of a few deficiencies that has a more decisive influence on its targeting.

6. The Kerala Model

Two innovative experiments in Kerala—one concerned with sustainable development and another designed to help the poorest—are reviewed below. The results were mixed. While the former points to community "failure" in dealing with externalities without the help of an external agency, the latter suggests that even the poorest communities are capable of organising themselves to uplift their living standard.

As noted earlier, following the 73rd Constitutional (Amendment) Act, a three-tier Panchayati Raj was instituted in India. Kerala, however, went a step further. In 1996, it allocated 35 to 40 percent of its annual budget for new development plans to the projects designed by local bodies. The local bodies and the communities were expected to match 25 percent of the grant via beneficiary and additional fund raising, and voluntary contributions in the form of labour, material and money.

A striking feature of this new experiment was that *agency* was put before *structure*. More specifically, financial devolution preceded the division of functional responsibilities between the local bodies and the state government. The presumption was that the actual practice of participatory planning and implementation in the context of a mass campaign would evolve into an effective system of functional division. Another important feature was that the new participatory development programmes emphasised joint productive interests in an attempt to build up broad alliances among different interest groups. A third feature of decentralised planning was that it aimed at increasing agricultural production, alleviating ecological problems, improving the quality of social infrastructure, tackling gender injustice, and deprivation of tribal groups.

A. The People's Planning Campaign

Features. In August 1996, the State Planning Board launched the "People's Planning Campaign." As part of this Campaign, 100,000 volunteers were trained to assist the local bodies. In gram sabha (village assembly/ward) meetings, more than two million people expressed their felt needs and discussed local development problems; selected voluntary experts and ward representatives; identified the main problems and drafted Panchayat development reports; based on these reports, sectoral task forces, comprising local officials, voluntary experts and resource persons, drafted project proposals; village Panchayats then prioritised these proposals within a broad set of guidelines for sectoral allocations; the local plans of 991 village Panchayats were integrated in 152 block Panchayat plans and

14 district Panchayat plans; in consultation with district level officers, block and district level Panchayat representatives approved the plans in seminars; and, finally, district and block level expert committees gave the required technical sanctions.

Outcomes. The local plans in 1997 to 1998 produced nearly 68,000 projects, from repairing irrigation ponds, to developing cooperative vegetable gardens, to establishing women's enterprises, building houses for squatter families and reviving ritual traditions. But, not surprisingly, there were delays in project implementation. However, informal rules have developed between different stakeholders, and additional provisions have been included in an amended Panchayat Act in 1999, with a view to eliminating such delays.

But, more importantly, the adoption of productive and sustainability goals in the local plans shows a mixed record (Vernon 2001). Compliance with the prescribed sectoral allocations was weak, as the majority of projects were consumption oriented, individual beneficiary schemes were more common than group-based activities, and subsidy rates were high. Besides, the bulk of the beneficiary contributions were mandatory contributions for receiving subsidised goods. Furthermore, the projects were partial interventions such as single-crop schemes that neglected ecology and marketing. In sum, most projects were qualitatively similar to those implemented by line agencies earlier (Vernon 2001).

There were a few exceptions, however. One is the establishment of a "labour bank" through the initiative of an agricultural officer of a south Kerala village Panchayat, designed to ensure a supply of labour at short notice—a crucial requirement for paddy cultivation. A new body, the "Farmers' Helping Group," comprising Panchayat representatives, representatives of farmers and labourers, and government officers, was constituted. This Group negotiated a fixed wage rate, provided training and subsidised farm inputs. As a result, within a short period, there was agricultural intensification and employment generation, and reversal of environmentally unsound conversion of wetland. Also, both the participating labourers and farmers benefited.

Another exception relates to integration of environmental concerns in some sectoral projects. For housing projects, for example, an NGO produced environment-friendly building materials. Also, there were a few cases in which committed government officers and scientists were instrumental in promoting the use of environment-friendly technology. In general, however, this was not the case (e.g., soil and water conservation projects failed as they were not part of an overall watershed management plan).

So, while decentralised planning expanded the scope for civil society, Panchayats, NGOs, and officials to implement sustainable development projects, it must not be overlooked that community participation alone did not lead to environmental projects. To some extent, neglect of environmental impact assessment and monitoring of environmental standards by state institutions also contributed to the unimpressive record of decentralised planning in *sustainable* develop-

ment.³¹

Lessons. Although notable for its financial devolution and community involvement in identifying, designing, and implementing projects, the new Kerala model failed to produce desired results for several reasons.

Despite the greater transparency in decision-making, the nexus among locally influential persons led to arbitrary selection of projects. Besides, even in communities that depend heavily on natural resources, environmental awareness cannot be taken for granted, as there are often harsh trade-offs between immediate livelihood needs and long-term environmental protection.

Since village development plans tend to neglect spatial and temporal externalities, these plans require coordination at higher levels, and some sort of top-down planning. This is, however, easier said than done, as it could lead to conflicts between popular participation and planning from above.

A crucial requirement for community-based development is a clear identification and strengthening of areas of synergies between the state government, the local bodies, and the civil society. The Kerala model has tried to induct local civil servants into the process of decentralised planning. In addition, the transparency of financial allocations has also increased. Yet much depends on the commitment and dynamism of a few officials and development volunteers.

Whether development of line agencies under Panchayats with some performance-linked incentives would make a difference, is a question that deserves investigation.

In conclusion, while it would be premature to reject the Kerala model as inappropriate, the risk of community "failure" in environmental protection is indeed real and serious.³²

B. Does Decentralisation Benefit the Poorest ?—The Malappuram Case³³

Although this experiment preceded the "People's Planning Campaign," it epitomises the spirit of this Campaign. It demonstrates that even the poorest communities are capable of organising themselves for improving their well-being under the overall guidance of and support from village Panchayats or Municipalities. Although some of the claims need careful assessment, it is undeniable that the poorest benefited.

Organisation of the Poor. A pilot project was launched in Malappuram—the most backward district in Kerala—in 1994. The poor households were identified on the basis of a set of non-monetary indicators (e.g., whether the household owned a house, whether it had access to safe drinking water, and whether there was more than one earning member in the family). These households were organised into Neighbourhood Groups (NHGs) of 20 to 30 households, with each household represented by a woman. The NHGs networked into Area Development Societies at the lowest level of local government (i.e., village Panchayat or Municipality). These ADSs were then federated into a Community Development

Society (CDS). The CDS is coterminus with the village Panchayat or Municipality.

Functions. Each NHG elects 5 volunteers from its members to function as the President, Secretary, and volunteers for community health, income generation activities, and physical amenities. NHGs prepare micro-plans based on the needs of the members, identified through surveys and discussions.

ADS, comprising 8 to 10 NHGs, function through a General Body, a Governing Body, and a Monitoring and Advisory Committee. ADSs compile the micro plans of NHGs into a micro plan.

CDSs also function through a General Body, a Governing Body, and a Monitoring and Advisory Committee. They consolidate the plans prepared by ADSs. CDSs are recognised as executing agencies for small, rural public works, through community contracting.

A large number of volunteers were trained in different areas under the auspices of the CDS system. The areas included community health management, community finance management, preparation of development plans, implementation and monitoring, micro-enterprise development, and others.

Performance. A recent review draws attention to the achievements of this experiment, listed under the following heads: environmental, sanitation, and drinking water (e.g., building of 5,600 sanitary latrines, 35 bore and open wells, 53 toilets in schools); education (e.g., reduction in drop out rate); remedial education for under-performing students from poor families and formation of Mother-Teacher Associations in primary schools; community health (e.g., lower incidence of cholera, typhoid, malaria, 100 percent coverage in immunisation against polio, better outreach of Reproductive and Child Health Programmes), and development of micro-enterprises (e.g., 12,332 micro-enterprises set up and assisted through revolving funds, and provision of marketing services).³⁴

Assessment. These achievements may seem more impressive than they are for two reasons: (1) their qualitative dimension is missing (e.g., quality of wells constructed, effectiveness of remedial education for under-performing students from poor families, viability of micro-enterprises); and (2) in a few cases, the assessment may be subjective (e.g., better outreach of Reproductive and Child Health Programmes, reduction in school drop-out rates). Nevertheless, some gains to the poor cannot be denied. These comprise a growing self-confidence and assertiveness among the poor—especially among the women—a culture of self-help, and better planning and implementation of schemes designed for them.

7. Competition, Collusion, and Segmentation

This case study, focused on the role of the Panchayats in highly segmented communities in two districts of UP, points to strikingly different outcomes for those at the lower rungs of the caste hierarchy. In one, a section of these competed with others and, in collusion with middle and upper castes, secured control over the

Panchayats and captured a large chunk of the benefits of anti-poverty and other rural development programmes. In another, by contrast, those at the lower rungs continued to be in a subordinate position to traditionally dominant groups, and consequently benefited little from these programmes. As the processes underlying these outcomes enrich our understanding of why sometimes only a small segment of the rural poor benefits, a detailed review is given below.³⁵

A. Sample

The sample villages were chosen from two districts viz. Meerut from western UP and Azamgarh from eastern UP. From each district, three villages were chosen on the basis that they had a large proportion of the *Dalits* (economically and socially depressed groups)—a subset of lower castes.³⁶ In addition to a small sample of households, chairpersons of village Panchayats, Block Development Officers (BDOs) and other functionaries at the block level were interviewed.

While Meerut belongs to a prosperous region in UP with a relatively low incidence of poverty, Azamgarh combines extreme poverty with a high density of population in rural areas. In Meerut, the *Dalits* account for 15 to 20 percent of the population, and, in Azamgarh, for a higher share (about 25 percent). For various reasons, including rapid economic development, there has been a strong wave of *Dalit* assertion. Among the *Dalits*, the upwardly mobile *Jatavs* and not so much the *Balmikis* are politically more assertive. Although the political consciousness of the MBCs has grown too in recent years, they are reluctant to join hands with the *Dalits* not because they are better off, but simply because they consider them "unclean." With the questioning of traditional sources of authority and influence, the dominant castes, such as the *Rajputs* and *Jats* with land as the main source of income, have lost some of their prestige and status. In Azamgarh, on the other hand, traditional sources of authority have not weakened despite of course a spread of political consciousness among the lower strata. While the *Dalits*, consisting mostly of the *Chamars*, *Pasis*, and *Musahars*, have failed to evolve a distinct identity of their own, the MBCs cast in an essentially feudal network of relationships with the middle castes continue to perform traditional functions. The position of the dominant groups, comprising mostly the *Ahirs* and *Kurmis*—"clean" cultivating castes categorised as Other Backward Castes (OBCs) but roughly equivalent to the *Jats* in western UP—has not been questioned. They share their dominant status with "upper class" Muslim *Siddiquis*.

An important feature of the sample villages is that they are classified as "Ambedkar" villages. The Ambedkar Village Programme was launched in 1991 to concentrate development funds in villages with a sizable *Dalit* population. The villages selected remain under this programme for one year and are provided an extra allocation of Rs 1 lakh (approximately U.S. \$2,083) to supplement existing programmes for the *Dalits* and other disadvantaged groups. Planning is done at the Block Development Samiti meetings held four times a year, attended by vil-

lage Panchayat heads and block officials.

B. Performance of Panchayats

Two criteria are considered viz. participation of the lower castes in village and block Panchayats, and the distribution of the benefits of anti-poverty and other rural development programmes.

Participation. It cannot, of course, be denied that there was a transition from control over the Panchayats by dominant castes and rich peasants to a more democratic system in which lower castes were better represented in the sample villages in Meerut. However, the lower castes did not have a major role in decision-making. Although the *Jats* and *Rajputs* shared their dominance of the Panchayats with a small but relatively affluent and assertive *Jatavs*, several of the latter owed their success to the former in closely contested elections for reserved seats among the *Dalits*.³⁷ As a result, the dominant castes did not totally lose control over the Panchayats. This is further corroborated by infrequent meetings, attended by village and block Panchayat heads, and a few functionaries, and largely collusive decision-making.

A more dismal picture is presented by the sample of villages in Azamgarh. There was a complete absence of participation by the lower castes in the decision-making process, despite a visible presence in the Panchayats. The dominant castes retained their control. What made matters worse was a sense of apathy towards the Panchayats, reflected in a widely held view that these were essentially "Sarkari" (government) institutions for funding welfare programmes and for settling disputes among the villages.

Distribution of Benefits. Considering the Meerut villages first, several programmes were implemented by the Panchayats. These included the JRY, IRDP, housing and old age pension schemes. The JRY concentrated on building link roads, brick roads, school buildings, installation of hand pumps, and other projects. Many villagers also availed of IRDP loans. These were used for setting up tailoring units, cycle and machine repair shops, and carpentry units. However, the benefits of many of these activities accrued largely to the *Dalits*, particularly the relatively affluent *Jatavs*, bypassing the poorer groups of MBCs and among the *Dalits* the *Balmikis*. In the process, the differentiation that existed among various sub-groups of lower castes sharpened and the antagonism intensified.³⁸

As in the Meerut villages, under the JRY in the Azamgarh villages, hand pumps were installed, brick roads and drains were laid, and a new school building was built. Also, under the IRDP, households were able to buy bullocks, buffaloes, sewing machines, and start poultry farming. However, there was one important difference. Compared to the allocation in the Meerut villages, a larger fraction of the funds in the Azamgarh villages was devoted to schemes that benefited the entire village instead of specific groups. This was largely a result of the clout of dominant castes, especially the *Kurmis*, who were apprehensive that improve-

ments in the living standards of the *Dalits* and MBCs would make them more assertive and demanding. So, although the divisions among the lower castes were not sharpened, their dependence on the dominant castes continued.

In sum, the outcomes of anti-poverty interventions and other development initiatives differed, depending on whether the *Dalits* or a sub-set had evolved a distinct identity and whether there was any collusion with the dominant castes. In one case, these factors sharpened the divisions among the lower strata. In another, failure to establish a group identity among the lower castes meant that the dominant castes could not be challenged, thus, the former remained dependent on the latter.

8. Corruption, Capture, and Control

A. Corruption and Capture

Corruption is commonly understood as the abuse of public power for personal benefit (World Bank 1997). It is arguable that corruption in a decentralised system may be more costly in terms of efficiency than in a centralised system, as the latter internalises the (negative) externality of one bribe transaction on another.³⁹ This is akin to Olson's (1993) idea that the distortionary effects of tax impositions of the state as a "stationary bandit" (having thus an "encompassing" interest in the domain over which the rent-extraction is carried out) will be smaller than those of the "roving bandit." It is, however, arguable that even centralised corruption is more distortionary than taxation, as the former uses up resources in concealing it and diverting resources to transactions in which it is easier to avoid detection and punishment.⁴⁰

The pervasiveness of corruption in local governments is attributable to the fact that arm-length relationships among elected representatives, officials, and the elite are relatively scarce at the local level. Since collusion is easier to organise and enforce in small groups, the risks of detection and punishment are reduced. As elaborated below, tight control over information relating to rural development and poverty alleviation programmes is an effective rent-extraction mechanism. By contrast, at the national level, rent-seeking is more competitive, and capture of central government institutions is harder. Regional elites and interest groups neutralise one another, there are more stringent checks and balances, and general awareness levels are higher (Bardhan 1996, 1997).

In general, weak or non-existent accountability mechanisms—limited involvement of the community in decision-making, and access to official records, over-elaborate procedures for removing corrupt officials and elected representatives, a weak opposition, and absence of a vigilant press—tend to perpetuate local corruption. In contrast, when democratic institutions are better developed and the political processes are more transparent, the theft of funds is likely to be smaller. A case in point is decentralisation in Karnataka, as discussed later. Although the

number of individuals involved in corrupt acts increased, the resources siphoned off were smaller (Crook and Manor 1998).

An issue is whether inter-jurisdictional competition could reduce corruption, by allowing clients to migrate to localities that are better served. This seems unlikely in view of limited awareness, low mobility, and site-specificity of local public goods. There is also a risk that competitive pressures may actually increase theft from the government (or, corruption with theft in which neither the briber nor the bribee has an incentive to report the corrupt transaction).⁴¹ This could happen if targets are inflated to attract higher outlays, resulting in diversion of larger amounts—a common practice in the context of drought relief from the centre to state governments in India.

Although the relationship between inequality and local bodies has not been examined in detail—there are a few specific formulations based on somewhat extreme assumptions—there is some fragmentary evidence that local bodies and user or special interest groups tend to be dominated by a few influential persons or local elite in a context of socioeconomic inequality in endowments (e.g., land distribution).⁴² In extreme cases, local government is "captured" such that little or no redistribution in favour of the poor takes place. A case study from an Indian state, reviewed below, examines the underlying process and how it is perpetuated. In two recent expository contributions, Bardhan and Mookherjee (2000a, 2000b) throw valuable light on the process of capture at local and national levels, and how it affects the poor. It is demonstrated that local governments in the poorer districts are more prone to capture, since the number of uninformed voters is higher. If the districts vary in their poverty rates, the extent of capture of local governments in different districts would differ and the extent of capture at the national level would take an intermediate value. Some key factors are relative intensity of electoral competition, cohesiveness of interest groups, and voter awareness at national and local levels. Although decentralised delivery is cost-effective and reduces corruption, the greater proneness of local capture in poorer districts could neutralise these advantages.⁴³

Rent-Seeking and Capture. A survey of three districts in UP viz. Gautambudh Nagar, Mahamaya Nagar, and Bulandshahar in the relatively affluent and populous region of west UP, focused on the implementation of two major anti-poverty programmes—the JRY and IRDP—in 1997, points to the pervasiveness of rent-seeking behaviour in all the gram Panchayats.⁴⁴ As a result, there were large-scale diversions of resources. The benefits of the JRY, IRDP, and other rural development programmes to the poor were minimal. With a local power structure in which the upper castes (especially the *Brahmins* and the *Thakurs*) were dominant and the poor lacked awareness and organisation, rent-seeking behaviour remained unchecked. Regardless of whether the Panchayat chairperson belonged to upper or lower castes, there was little variation in the method and pattern of domination by the locally powerful groups. Excessive pessimism and fear of violence among the poor and other vulnerable sections virtually eliminated any pro-

spect of organised protest or resistance. It is ironic that large segments of the rural population continue to be at the mercy of a few powerful groups despite a drastic overhaul of the Panchayats, following the 73rd (Amendment) Act, which was designed principally to ensure greater participation of the weak and powerless such as members of the SC/STs.

Some glaring shortcomings in the implementation of the JRY came to light in the survey in question. The amounts received by the gram Panchayats ranged between Rs 16,000 to 18,000 in 1996 to 1997, and these were utilised mostly for making brick roads. The chairpersons claimed that 200 to 250 persons participated in this activity for seven to ten days each, and the bricks were supplied by the chairpersons.⁴⁵ As the muster rolls were also maintained by the chairpersons, and none of the villagers interviewed were aware of how the JRY operated, the chairpersons and Panchayat secretaries were asked to name a few participants. Some of the persons named denied receiving wages but admitted contributing free labour (*shramdan*) to prevent water logging in residential areas.

Other pieces of evidence lead to the conclusion that the whole operation was masterminded by the chairpersons, Panchayat secretaries, and village level workers (VLW) for their personal benefit. Typically, brick laying was undertaken in busy months for agricultural labourers, resulting in their virtual exclusion. None of the Panchayat members knew anything about the scheme, such as its financial outlays, nature of activities, and number of participants. In fact, in one case, it was discovered that brick laying was completed well before the JRY grant was received! Whether the poor benefited at all, thus, seems doubtful.

The IRDP also was a dismal failure. Instead of the village assembly identifying the beneficiaries, the chairpersons selected them. In one case, it was widely known that the chairperson extracted heavy fees. Following complaints, he absconded. Even under the new chairperson, little seems to have changed. Lack of awareness of the scheme and lack of accountability in the village community tends to perpetuate the status quo.

The role of the gram Panchayat in other rural development schemes, such as village hygiene and sanitation, literacy, consolidation of holdings (*chakbandi*), and land transfers, reflected gross negligence or the unmistakable influence of a few dominant groups. Few Panchayat members (including the chairperson) expressed concern about the lack of access to drinking water, primary health-care facilities, non-functioning schools, unhygienic conditions, and other development issues.⁴⁶ When their attention was drawn to some of these problems, the chairpersons blamed district agencies for the meagreness of outlays.

This does not explain the many instances of *chakbandi* favouring a few influential and wealthy individuals that came to light during the survey. Large plots nearer the main road were assigned to them by the chairpersons in connivance with a few village officials, for a "fee." In another case, the cremation ground of a poor community was declared as farmland and allotted to an influential family.

Given the monopoly power of the Panchayats in land allotment, employment, credit, health care, and education, there are ample opportunities for earning "rents," especially from affluent sections. Even under the new system, the UP survey revealed that transparency in decision-making of the Panchayats was lacking. Through the VLW, the chairpersons had access to information on various government schemes. The Panchayat secretary maintained financial records. To the extent that access to such information was limited to this group, monopoly rents accrued to it. It is, therefore, not surprising that important decisions were taken by this group, mostly without involvement of other Panchayat members. A few villagers reported that their chairpersons frequently visited the block development officer or VLW before a meeting. Nor did the community have a role, as gram sabha meetings seldom took place. When they did, they were no more than rituals. In the districts surveyed, the gram sabha meetings were not publicised, their frequency was disputed, the agenda were manipulated, caste and other factors influenced important decisions, and intimidation and violence were frequently employed to force compliance. Higher authorities are powerless under the new legislation because the chairperson can only be dismissed if there is a motion of non-confidence against him or her. A district magistrate lamented the loss of his right to dismiss errant Panchayat chairpersons. He also summarily rejected his ability to use other means to curb rent-seeking behaviour of chairpersons. On the other hand, a high degree of social stratification, with upper castes occupying key positions, limited somewhat the prospects of collective protest.

Supplementary Evidence. Some additional evidence from Karnataka points to a paradox: the number of people involved in corrupt acts increased significantly, but the overall amount stolen decreased modestly. With decentralisation, the number of people with influence increased. So the view that district and mandal Panchayats/councils decentralised corruption is plausible. However, decentralisation also meant greater transparency and accountability.

Before decentralisation, a large fraction of the funds meant for development were siphoned off by ministers and legislators before reaching lower levels. At the lower taluk or sub district level, there was a Taluk Development Board, consisting of directly elected members. But this was far weaker than the District and Mandal Councils, and its members had far less information about and influence over development programmes. A few persons—the chairman of the board, the taluk's state legislator, the block development officer, the chief engineer and the accounts officer—had access to information, and tight control over funds. Exercising utmost secrecy, these funds were diverted to themselves, their friends and relatives.

Although new councillors stole funds and accepted bribes—usually a small percentage of a contract—the openness of the system made it harder to siphon off large amounts without others finding out. A vigilant press, a lively two-party system and effective voluntary associations curbed malfeasance. Although (notional) estimates of corruption vary among the districts—between 5 to 25 per-

cent of council funds—there was greater concentration at the lower end.⁴⁷ By the standards of developing countries for which some estimates exist, this is an impressive achievement.

Between the lapsing of this system in 1991 and the new system that emerged after the 73rd Constitutional (Amendment) Act, there was a sudden increase in corruption. This implies that decentralisation had a role in reducing corruption.

B. Control

Attention is drawn below to some coordination problems at the central and lower levels of decision-making. A key issue is how to resolve the coordination problem at the central level that involves a trade-off between economies of scale and scope, and inter-jurisdictional externalities on the one hand, and the need for local information and accountability on the other. Since the relative importance of variables on both sides in this trade-off is likely to vary on a case-by-case basis, it is difficult to specify the nature and extent of supra-local control in general terms. One specific suggestion, however, merits consideration (Prud'homme 1995). Going beyond a rigid centralisation-decentralisation dichotomy, in some cases simultaneous involvement of two or three levels of government may be appropriate. The local government, for example, could be responsible for management of schools, given its informational advantage and accountability to the local community; the regional government could obtain economies of scale in designing curricula; and the central government could specify minimum grade and other quality requirements. Although the 11th Schedule (in the Indian Constitution) provides a detailed classification of functions at different levels of the Panchayats, it falls short of a precise allocation of responsibilities in accordance with the criteria listed above. Nor are the coordination issues addressed carefully. At lower levels, there are equally serious concerns, as illustrated below.

Overlapping areas of responsibilities, rigid and elaborate procedures, and weak monitoring and evaluation systems impede coordination between the Panchayats at different levels as well as between the Panchayats and official agencies. Coordination failures result in delays in disbursement and utilisation of funds—especially at the gram Panchayat level—with serious consequences for the effectiveness of the Panchayats in implementing schemes entrusted to them.⁴⁸ In fact, some recent evidence suggests that slow and uncertain disbursement of funds forces the gram Panchayats to undertake small uneconomic projects.⁴⁹ While the state Acts addressed this concern, some difficult problems remain unresolved. Although financial reporting procedures have been streamlined—the gram Panchayat reports to the block Panchayat, which in turn reports to the zilla parishad—the informational and other requirements are far too demanding, especially at the gram Panchayat level.⁵⁰ Further, a delimitation of the roles of the Panchayats at different levels as envisaged in the state Acts—the Maharashtra Act,

for example, emphasises that the Panchayat Samiti is an *executive* arm of the Zilla Parishad linking it to the gram Panchayat—is not helpful without a clear demarcation of their specific responsibilities and duties. Finally, despite the primacy given to the Panchayats in rural development, some key areas and activities (e.g., centrally sponsored schemes such as the IRDP and JRY) remain largely within the control of official agencies (e.g., the DRDA). As the latter are responsible for ensuring that the prescribed norms and guidelines are adhered to while the Panchayats may have different concerns, some antagonism is unavoidable. However, as argued below, if the gram Panchayats have greater accountability, it may be feasible to channel some of the grants directly to them, reducing substantially, if not eliminating altogether, the coordination failures.

A major constraint on decentralisation is the limited capacity of local governments in the context of redistribution. This is partly a consequence of low quality of staff and bureaucracy. Central governments attract better talent partly because of better salaries, more attractive career prospects and diversity of tasks, and partly also because of the self-reinforcing mechanisms of human capital emphasised in recent growth theory (Bardhan 1997). Also, there is in some cases (e.g., village Panchayats in India) a glaring mismatch between the capabilities of local bodies and the tasks assigned to them.⁵¹ Although line agencies are supposed to supplement their manpower resources, a dual authority structure prevails which hampers their smooth functioning. This points to the need for incentive compatible organisational structures that will minimise dissonance between elected representatives and line agencies.

9. Financial Autonomy, Shortfalls, and Utilisation

Despite a much expanded role for the Panchayats, especially village Panchayats, the resources assigned to them have hardly grown. More importantly, the share of their resources not tied to specific programmes or activities continues to be extremely low. In the context of anti-poverty programmes (specifically, the JRY), a large share of the total allocation is assigned to village Panchayats. However, the flexibility in utilising these funds is limited. In effect, therefore, the Panchayats are merely a conduit for transfer of central and state allocations. The Panchayats are further constrained in mobilising resources locally partly because spatial concentration of economic activities limits their revenue raising potential, and partly also because there are few taxes and fees and cesses that they are allowed to collect. Nor have the State Finance Commissions (SFCs) expanded the local fiscal domain, based on a widely held presumption of Panchayat inability to enforce compliance.⁵² As a result, fiscal dependence of the Panchayats on the state and central governments will continue to be heavy. In principle, this could have adverse implications for not only local development efforts but also for poverty alleviation.

Some illustrative estimates of fiscal decentralisation from a recent World

Bank study (2000) are revealing. These relate to: fiscal autonomy (share of local revenue from own sources in total local income); revenue dependency (share of grants from higher level governments in total local income); revenue decentralisation (ratio of local revenue from own sources to total government revenue); and expenditure decentralisation (ratio of total local expenditure to total government expenditure). As far as fiscal autonomy of the Panchayats is concerned, it is generally low, varying from 6 percent in Rajasthan to 19 percent in Madhya Pradesh. Although revenue dependency—almost a mirror image of fiscal autonomy—has declined somewhat in a few states, it is still considerably above 50 percent in all states analysed.⁵³ The revenue decentralisation, including the share of the municipalities, ranges between one and five percent for most states. If a separate estimate for the Panchayats is worked out, it is much lower. Further, confining to village Panchayats, revenue decentralisation is negligible. Since the mid-1990s, there has been a very slight increase in expenditure decentralisation to the rural areas. The share of the Panchayats in total government expenditure rose from 3.3 percent in 1994 to 1995 to 5 percent in 1999 to 2000. Kerala outperformed all other states in raising its share of local expenditure.

In the context of poverty alleviation programmes, especially the JRY or its more recent variant, the Jawahar Gram Samridhi Yojana (JGSY), there are two major concerns: one is slow disbursement and its bunching towards the end of the financial year, and the other is connected with hasty and *ad hoc* utilization of funds. Not only are the criteria for allocation fudged but also schemes, projects, and areas are chosen essentially to fulfil some broad targets (such as person days of employment generated under the JRY) that are easy to manipulate. In the process, the non-poor gain at the expense of the poor.

Partly slow utilisation of funds for poverty alleviation at the village Panchayat level is procedural—grants are seldom given directly to the implementing agency; or, if given directly, involve an elaborate procedure (e.g., submission of utilisation certificate for the previous instalment) which the Panchayats—especially the gram Panchayats—find hard to comply with. Since the procedures have not been simplified and the provisions for support staff are far from adequate, shortfalls in utilisation are likely.

As a consequence, the share of unspent balances is more than moderate with serious implications for the cost-effectiveness of anti-poverty programmes.⁵⁴

- (i) The share of unspent balances in total allocations for rural public works rose from 16.80 percent in 1987-88 to 21.08 percent in 1993-94;
- (ii) the share of the poorest (five) states in total unspent balances rose from 38.43 percent to 41.70 percent over this period; and
- (iii) in 1987-88, the share of unspent balances in total allocations exceeded 20 percent in four states (out of fifteen); in 1993-94, this applied to nine states.

Thus, there is some evidence of a worsening of disbursement and utilisation of funds for rural public works with a consequent worsening of their cost-effectiveness (Gaiha et al. 2001).

10. Strategic Options

Some key strategic options are sketched below to draw attention to *how* decentralisation could serve the rural poor better. As coalitions of rural poor have a crucial role and there is hardly any consensus on the feasibility of such coalitions, some important elements in building and strengthening them are discussed in greater detail.

A. Main Concerns

A list of options in different areas of concern is given below, as a detailed exposition is given elsewhere (Gaiha 2001a). As emphasised earlier, decentralisation is often a political process, since it tends to disrupt the power and privileges of some influential groups. It is therefore imperative to formulate a medium-term strategy of 10 to 15 years, based on a careful identification of the allies and opponents of decentralisation, and an understanding of their motivations and the mechanisms that could weaken their resistance to it. Political debates and mass campaigns may help build support for decentralisation. Right of access to information to government programmes may lend greater transparency to decision-making and prevent capture of the Panchayats by a few influential persons.

In the context of fiscal autonomy, some important requirements are (i) a higher share of transfers as untied grants, (ii) conversion of these grants into a share of state revenue, (iii) an equalisation formula to allocate grants to local governments, and (iv) an increase in the sources of own revenues through own and assigned taxes and strengthening of their capacity to collect. Equally important in the context of poverty alleviation is the need for greater flexibility in designing and implementing centrally sponsored schemes such as rural public works—within of course a broad framework of national guidelines—at the local level. Local governments must have an important role in choosing the mix and scale of services, delivery system, financing, and remedial measures, if required. On the other hand, greater local autonomy must go hand in hand with greater accountability to the local community.

In view of the arbitrary reassignment of areas of responsibility, a priority is an unambiguous specification in the Constitution or laws. Equally importantly, local bodies such as the Panchayats must not be burdened with responsibilities that they are ill-equipped to perform. Deviations from nationally determined guidelines may be checked if there are appropriate performance indicators for the Panchayats and line agencies. Who will monitor and how frequently may require some experimentation.

If there is mistrust and suspicion between different groups (belonging to, say, different castes), or social apathy, careful attention must be given to overcoming these barriers. Spread of literacy may help along with social sensitisation. In both areas, NGOs may have a potentially important role. But whatever the options, the process of overcoming of social barriers is likely to be slow and incremental.

In the context of capacity building, learning horizontally is a promising option as concrete solutions to specific problems in similar jurisdictions are often very instructive. For example, state and lower levels of governments could learn from others how to identify demand, contract delivery, and target the poor.

B. Coalitions of the Poor

As illustrated in the UP case studies, local governments or community-based organisations (CBOs) often do not serve the interests of the poor adequately even when they are represented in them and when they are responsible for poverty alleviation programmes. For such organisations to serve the interests of the poor, a strong coalition of the poor is necessary. Some pointers from the literature are reviewed below.⁵⁴

Cooperation depends on whether cooperative action was successful in the past. The latter may be associated with shared norms of fairness, reciprocity, and trust in a community.⁵⁵ In general, such norms are less likely to be observed in "vertical" social networks, as opposed to horizontal ones involving people of similar status and power (Putnam 1993). The UP case studies, however, suggest that even among poor communities there is a marked differentiation that comes in the way of questioning of the authority of dominant castes. A more serious concern, however, is that the differentiation may get sharpened if an assertive segment colludes with upper castes in a bid to "capture" the resources of the Panchayats. While it would be naïve, if not misleading, to overlook these concerns, there are some grounds for optimism. Assertiveness of different segments of the poor may grow if there are fall-back options of the Employment Guarantee Scheme type (Gaiha 2001b). Also, to some extent, social differentiation may weaken through daily contact between members of different castes under such schemes. Further weakening of social differentiation is likely when gains from cooperation are large. Land reforms, or more specifically, land redistribution through a market-mediated mechanism, could induce more effective participation of the poor in the Panchayats. Bardhan (1997:60) puts it succinctly:

One beneficial by-product of land reform, underemphasized in the usual economic analysis is that such reform, by changing the local political structure in the village, gives more voice to the poor and induces them to become involved in local self-governing institutions and the management of local public goods.

A related issue is whether economic betterment must precede empower-

ment. Manor (1999) is somewhat sceptical of this view.⁵⁶ Participation of the poor in local self-governing institutions does of course help in evolving a sense of collective identity and inculcating a sense of public duty. But this process of empowerment is often slow and incremental, if not uncertain. A more rapid process of empowerment follows economic betterment.

Case studies in Carr et al. (1996) provide a vivid portrayal of this process. Of particular interest are the roles of Self-Employed Women's Association (SEWA) and the Cooperative Development Foundation (CDF) in India. Promotion of women's producer groups by SEWA and of women's credit and thrift societies by CDF—despite initial scepticism among the members—has led to more than moderate income gains among the members on a regular basis. Income gains coupled with experience of managing producer groups and cooperatives have imparted to them greater self-confidence, security, and independence both *within* and *outside* the household. There is a sense of solidarity among them. Caste divisions have weakened. Women now advise their husbands on cropping decisions. Their advice is also sought on community matters (e.g., sanitation). Greater political awareness has led to more active participation in local elections.⁵⁷

If the centrality of economic betterment in empowerment is accepted, the complementarity between the Panchayats and other rural organisations (e.g., cooperatives, labour unions) acquires an added significance. As a result of economic betterment, through self-managed activities, the poorer or weaker sections become better equipped to play a more assertive role in the Panchayats. On the other hand, to the extent that there are fixed costs in organising the poor through meetings, awareness campaigns, and dissemination of information, labour unions could reduce them significantly by enlarging their membership.⁵⁸

11. Concluding Observations

Although a uniform organisational structure of the Panchayats has evolved following the 73rd Constitutional (Amendment) Act of 1993, the actual assignment of functions and responsibilities to village Panchayats is markedly different from that delineated in the 11th Schedule of the Constitution. In fact, in two of the three states reviewed, all major functions assigned to village Panchayats were either handled by official agencies or by block and district Panchayats. Another somewhat glaring weakness of this structure is weak accountability of village Panchayats to the village community.

A review of the performance of the Panchayats in rural poverty alleviation points to a diversity of outcomes, often unfavourable to the poor. A comparative analysis of three states, for example, suggests that not only the nature and extent of decentralisation through the Panchayats but also the nature of the political regime matters. Another analysis, which focused on the targeting of the Jawahar Yozgar Yojana, draws attention to deficiencies in the design and implementation of this scheme resulting in its dismal targeting. As implementation of

this scheme is the sole responsibility of village Panchayats, their weak and ineffective functioning is largely responsible for targeting failures. Two innovative experiments in Kerala, with a major role for the Panchayats, yielded mixed results. The one designed for sustainable development had limited success, as the communities could not deal with spatial and temporal externalities without the help of an external agency. By contrast, some of the poorest communities had considerable success through self-help initiatives under the overall guidance of the Panchayats and Municipalities. A comparison of highly stratified communities in two districts of Uttar Pradesh points to strikingly different outcomes for those at the lower rungs of the caste hierarchy. In one, a section of these competed with others and, in collusion with middle and upper castes, secured control over the Panchayats and captured a large chunk of the benefits of anti-poverty and other rural development programmes. In the process, the segmentation of the poor sharpened. In the other, by contrast, those at the lower rungs continued to be in a subordinate position to the traditionally dominant groups, and consequently benefited little from these programmes.

Under extreme conditions of social and economic inequalities, there is a real risk of "capture" of the Panchayats. Attention was drawn to rent-extraction through a tight control over information relating to anti-poverty programme outlays and huge diversion of resources by a few influential persons. Excessive pessimism and fear of violence eliminated any prospect of organised resistance by the poor. Whether a decentralised system such as the Panchayati Raj leads to greater corruption than a centralised one is not easy to resolve. There is, however, some evidence for Karnataka suggesting that, while the number of persons involved in bribes increased, the amount of money involved in such transactions did not, due to the greater transparency and accountability of the Panchayats.

A major constraint on the poverty-alleviating role of the Panchayats is limited and tardy fiscal devolution, despite a much expanded role for them. As a result, fiscal dependence of the Panchayats on the central and state governments continues to be heavy, with serious implications for their role as a poverty-alleviating agency. A related and equally serious concern is slow disbursal of funds and its bunching towards the end of the financial year. Not only are the criteria for allocation fudged but also schemes, projects, and areas are chosen essentially to fulfil some broad targets that do not mean much in terms of poverty alleviation. In the process, the non-poor gains at the expense of the poor.

Some key strategic options were identified to enable the Panchayats to serve the rural poor better. Broadly, these relate to political legitimacy of and a constituency for decentralisation, greater fiscal devolution combined with more stringent accountability of local governments to both higher authorities and village communities, strengthening capacities of local governments, building of trust and social cohesion and a strong coalition of the rural poor.

In conclusion, although the performance of the Panchayats has been unimpressive except in a few cases, it would be pessimistic to ignore their pover-

ty alleviating potential.

NOTES

- 1 Rural Public Works (RPW) and Integrated Rural Development Programme (IRDP) accounted for 2.7 percent of central budgetary expenditure in 1997-98 (World Bank 1998).
- 2 Manor (1999) is emphatic that "no set of economic conditions has been a particularly important cause of decisions to decentralise" (p.34). Instead, these have been more decisively influenced by the "hard-nosed calculations of self-interest" of political leaders (p.37). Moreover, "Most decentralisers have conceived and implemented these reforms from above, on their own initiative, relatively free of pressure from below" (p.43). Smoke (1999), however, has a broader and more persuasive view. In the Asian context, he notes, in some cases, international donor pressure without national commitment has been a key factor, while, in other cases, internal political and/or economic crises have played an important role, sometimes resulting in "quick-fix" decentralisation programmes that are neither carefully designed nor sustainable.
- 3 For a lucid exposition, see Helm and Smith (1989).
- 4 If, for example, local government in village *A* opted for a higher level of redistributive spending than did local government in a neighbouring village *B*, the rich residents in *A* may move to *B* while the poor in *B* may move to *A*. Thus, the cost of a given level of redistribution in *A* would rise.
- 5 If transfers from higher levels of government substitute for revenue collected through local taxation, the absolute level of redistribution that can be provided will be lower. In the Indian context, for example, the higher the share of central transfers in state government expenditure, the lower is the tax effort of state governments (Jha et al. 1998).
- 6 For details, see Helm and Smith (1989).
- 7 In an influential critique of utilitarianism, Sen (1980) draws attention to a fundamental anomaly. Suppose there is a cripple *A* who gets half the utility that another person *B* gets from any given level of income. Utilitarianism would then involve giving *B* more income than *A* such that marginal utilities are equated in the two cases. The cripple would thus be doubly worse off: both since he gets less utility from the same level of income and since he will also get less income. The superior efficiency of *B* in producing utility would divert income away from the less efficient but "needier" cripple.

- 8 Schwager (1999), for example, argues that the central government should set standards and code good practice. If instead local governments are left free to do so, welfare is likely to be lower.
- 9 Bardhan (1997) puts it forcefully: "In practice, however, the local government still retains an informational advantage, and the main reason for this has to do with political accountability. In democratic countries, local politicians may have more incentive to use local information than national or provincial politicians, since the former are answerable to the local electorate while the latter have wider constituencies where local issues may be diluted. Even in some authoritarian regimes, local politicians may be under more pressure than national politicians to be sensitive to local needs" (p.47).
- 10 The interested reader may refer to Platteau (2000) for details.
- 11 Since these interactions have close similarities to an infinitely repeated game, it is necessary to point out that cooperation is one of the (multiple) Nash equilibria, and its realization is conditional upon a number of fortuitous initial moves (Platteau 2000).
- 12 The literature has focused mainly on the allocation of control-rights in firms, where the issue is which among the various parties (shareholders or creditors, for example) should have control over its assets under various circumstances (Dewatripont and Tirole 1993).
- 13 For a detailed exposition, see Gaiha et al. (2000).
- 14 For a detailed review, see Gaiha et al. (2000).
- 15 Note that the 72nd (Amendment) Bill was passed in the Lok Sabha (the Lower House) on 22 December 1992, and in the Rajya Sabha (the Upper House) on 23 December 1992, and, following the President of India's assent on 20 April 1993, the 73rd (Amendment) Act came into effect on 24 April 1993.
- 16 Approval of the Gram Panchayat budget by a simple majority of the Gram Sabha is mandatory only in UP. In the other two states, there is a provision only for the reporting of the budget.
- 17 That there is scope for additional taxes seems plausible on the ground that the range of such taxes and fees is very wide—from a low of 1 percent in Punjab to a high of 63.40 percent in Kerala (Oomen and Datta 1995).
- 18 For details, see Gaiha et al. (2000).

- 19 For an elaboration of this point, see Dasgupta (1993).
- 20 As a result, a fuzzy equilibrium may prevail in which the agency in question does not get full credit for a good performance nor full stigma for a poor one (Tirole 1994).
- 21 On this, see Seabright (1996).
- 22 For details, see Echeverri-Gent (1993).
- 23 This is termed as the "political patronage hypothesis" by Echeverri-Gent (1993), according to which representative democratic participation generally results in the growth of organisations which capture the resources available to them, and are pushed by electoral logic to mediate the interests of the poor within a broader support base.
- 24 This draws upon Crook and Sverrisson (1999).
- 25 For details, see Lieten (1988).
- 26 For details, see Webster (1992).
- 27 For an elaboration of this argument, see Kohli (1987).
- 28 For example, withdrawal of urban food subsidies and their replacement by income transfers to the poor or by producer subsidies is likely to be successfully resisted by urban groups, despite the support of all rural groups. For details, see de Janvry et al. (1992).
- 29 It provides a method of rank order scoring: each state is awarded a point equal to its rank in terms of an indicator. The state's points are added to obtain its aggregate score and, then they are ranked on the basis of their scores. For earlier applications, see Sen (1980) and Dasgupta (1993).
- 30 To help avoid any misinterpretation of the procedure, an illustration is given here. Hypothesising that the lower the ratio of JRY to local wages, the weaker would be the incentive for the non-poor to crowd out the poor from the JRY. Hence, the states are ranked in descending order of this indicator (the state with the highest ratio is assigned rank 1). Given the preference for daily wages, the states are ranked in ascending order of the proportion of JRY workers receiving daily wages. Finally, as cash is preferred to foodgrains, the states are ranked in descending order of proportions of JRY workers opposed to (part) payment of wages in food-grains. For the details of other composite indices, see Gaiha et al.

(1998).

31 As Vernon (2001) observes, the absence of private-public synergies at the macro level in regard to environmental protection counteracts the efforts of decentralised environmental planning, and may limit considerably Kerala's prospects in achieving sustainable development.

32 This is not inconsistent with Wade's (1987) influential analysis of collective action as a self-interested response in natural resource management in a sample of South Indian villages. Underlying this response were some agro-ecological conditions that favoured collective action. In general, when spatial and temporal externalities are involved, cooperation may require some form of intervention.

32 This draws upon Vijayanand (2001).

33 For details, see Vijayanand (2001).

34 This case study is adapted from Pai (2001).

35 These are distinguished from most backward classes (MBCs) in so far as the latter are on the border dividing the clean and unclean castes. Traditionally, the MBCs include service castes such as washermen, carpenters, barbers, etc.

36 In the 1995 Panchayat elections in Maithena, for example, there were 14 Dalit women candidates for the post of Chairperson. Out of these candidates, 2 were Balmikis and the rest were Jatavs (Pai 2001).

37 For details, see Pai (2001).

38 For an exposition, see Shleifer and Vishny (1993), and Bardhan (1997, especially Chapter 1). Bardhan (1997) provides an illustration, based on a comparison between post-communist Russia and the USSR. Formerly, the Communist Party centralised the collection of bribes, and checked any deviations from an agreed upon pattern. Today, various ministries, agencies, officials charge their own bribes independently, with more disastrous consequences for overall efficiency of the system.

39 Bureaucrats in poor countries, for example, often opt for imports of complex technology or goods in which over-invoicing is harder to detect than in a more standardised technology that might also be more appropriate. For similar reasons, there is also a strong preference for a few large defence contracts, as opposed to setting up of a large number of small rural health clinics (Bardhan 1997).

- 40 This terminology is due to Shleifer and Vishny (1993). An example is the collusion between a representative of a local government and a road builder, in which use of sub-standard material is overlooked by the former for a "fee." For some illustrations in the context of the Panchayats, see Gaiha et al. (2000).
- 41 Olson (1965), for example, argues that in a heterogeneous group a dominant member enjoying a large share of the benefits of a collective good would ensure its provision even if he has to pay the entire cost himself (with the rest free riding on his contribution). But much of the empirical evidence does not corroborate this. In a study of 48 water users' organisations in Tamil Nadu (an Indian state), for example, Bardhan (2000) found that rule compliance and inequality in landholdings among the irrigators are inversely related.
- 42 In a private communication, R. Jha points out that the loss of cost-effectiveness in a decentralised provision must be judged against that from excessive bureaucracy in a centralised provision.
- 43 For details, see Gaiha et al. (1998), and Gaiha et al. (2000).
- 44 In one case, it was reliably learnt that a relative of the chairperson owned the brick kiln.
- 45 Not surprisingly, some of the worst off in terms of unhygienic conditions were the poor settlements. In the villages covered by the Chiksson gram Panchayat, for example, about 200 Muslim families shared a single drinking water tap.
- 46 In general, the shares were 5 to 10 percent except in 2 to 3 remote districts where the shares approached 25 percent in bad years (Crook and Manor 1998).
- 47 Echeverri-Gent (1993) argues that implementation failures are essentially the outcome of conflicts between the objectives of the scheme and those implementing it, between different organisations involved in implementation, and between the administrators and their social environment. As a description of the process of implementation, there is little in it to disagree with. However, it does not stress the point that some conflicts arise simply because of overlapping duties and responsibilities.
- 48 Given the uncertainty in disbursing National Rural Employment programme (NREP) funds in West Bengal, the gram Panchayats were forced to undertake very small projects—in fact, in a survey of 37 gram Panchayats, Echeverri-Gent (1993) found that the average cost of a project was less than Rs. 2000.
- 49 Maintaining up-to-date records is usually beyond the capacity of the Gram

- Panchayats. Echeverri-Gent (1993), for example, found that at least 25 percent of the Gram Panchayats in his survey did not maintain proper records of expenditure. Nor were they able to submit utilisation certificates in time. As a result, there were considerable delays in disbursement of grants.
- 50 As Bird (1995) puts it aptly, the central government may not know what to do, and the local government may not know how to do it.
- 51 For a recent review of SFC recommendations in the context of the Eleventh Finance Commission Report, see Rajaraman (2001).
- 52 In many cases, the estimates for fiscal autonomy and revenue dependency add up to 100 percent. However, additional income sources such as loans can change the picture for some Panchayats.
- 53 For an elaboration of this argument in the context of the JRY and IRDP, see Gaiha et al. (2001).
- 54 This draws upon Gaiha and Kulkarni (1999).
- 55 For an elaboration with some illustrative evidence based on cooperatives in India, see Seabright (1997).
- 56 Commenting on de Janvry's (1981) view that the only reliable way to achieve an increase in participation and the collective action potential of poorer groups is to increase the resources available to them through redistributive policies, Manor (1999) observes: "Poor as well as prosperous people participate more and increase their collective action potential as a result of decentralisation even where it works mainly to the advantage of the elites. Over time, the greater transparency offered by democratic systems at lower levels, the increased participation of poorer groups, and their developing skills at influencing those systems may well assist them in curbing the power of rural elites to appropriate benefits" (p.43). The point of the evidence cited below, however, is that economic betterment induces a more rapid empowerment.
- 57 For similar evidence relating to self-help groups in the Maharashtra Rural Credit Project, see Gaiha (2000).
Some experimental studies suggest that social norms of trust and reciprocity, especially in a setting where there is communication between the parties, are just as effective in inducing cooperative behaviour as externally imposed monitoring of rules; besides, norms are more effective in sustaining cooperative behaviour (Ostrom 2000).

- 58 Attention may also be drawn to dynamic group network externalities among, say, rural organisations, for instance, the presence of a few successful ones induces the formation of others. Depending on the lags involved in this process, there could be sizeable reductions in the costs of organising the poor (Gaiha 2000).

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