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DECENTRALIZATION: THE INDIAN EXPERIENCE

by Raghav Gaiha

DÉCENTRALISATION ET DÉVELOPPEMENT RURAL
DECENTRALIZATION AND RURAL DEVELOPMENT
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DECENTRALISATION - THE INDIAN EXPERIENCE

1. Evolution

1.1 Decentralisation of socio-economic planning process and plan implementation to the grassroots levels has been a matter of continuing concern. Strengthening of the Panchayats, as effective local self-governing institutions, is enshrined as a Directive Principle of State Policy in the Constitution. Over the years, a heterogeneous structure emerged. Also, its effectiveness varied. The 73rd Constitutional (Amendment) Act, designed to revive and strengthen the Panchayats, marks a landmark. As a result, the Panchayats have become a third tier of governance, after the Union and State governments. Also, there is now greater recognition of the important role that non-governmental organisations (NGOs) can play in rural development, through effective delivery of various programmes/services and empowerment of the rural poor.¹ But above all grass root initiatives are rooted in the belief that participation of the people in the development process is an end in itself. Among the policy concerns, an important one is how to strengthen the linkages between official agencies and Panchayats and other rural organisations on the one hand, and between Panchayats and other rural organisations on the other, in the context of poverty alleviation.

1.2 The Eighth Plan (1992-97) reaffirms the need for a participatory strategy of development. It aims to create and strengthen various institutions at the District, Block and village levels. Panchayats are to be entrusted with adequate financial resources, technical/managerial inputs and decision-making authority. The rationale of this strategy, as enunciated in the Plan document, lies in the ability of Panchayats to diagnose better the needs of the community and their greater accountability to the community.

1.3 The initial stimulus for reviving Panchayats came from the Balwant Rai Mehta Committee report. Appointed in 1957 to review the Community Development Blocks, it recommended a three tier structure of Panchayats. State legislations allowing for regional variations followed. By the mid-1960s, Panchayats were established in different parts of the country.² In course of time, however, except for a few states (e.g. Maharashtra, Gujarat, Karnataka and West Bengal), most others either superseded Panchayats or allowed them little freedom to operate.

1.4 The appointment of the Asoka Mehta Committee in 1977 was a turning point. It was set up to enquire into the working of Panchayats, and to suggest measures to strengthen them. While recommending Block level planning, the Committee stressed that the District officials should be placed under the Zilla Parishad (District Panchayat). It also suggested that Panchayats should develop into planning agencies. Legislations were passed by different States constituting Panchayats at the Block and District levels, again allowing for considerable variation in the overall structure.

1.5 The 73rd Amendment to the Constitution is in some ways a culmination of the evolutionary process of decentralisation of democratic power.³ It confers constitutional status on Panchayats at different levels. It envisages setting up of a three tier structure of Panchayats at village, Block and District levels in each State; mandatory elections after 5 years; quotas for vulnerable sections, including women; financial devolution and a (broad) delineation of areas of responsibility. State legislations followed in conformity with the Constitutional (Amendment) Act. As of now, most State governments (except Bihar) have carried out Panchayat elections under the new legislation.

¹ The Seventh Plan (1987-92) for the first time made a financial provision for voluntary organisations.

² More than 217,300 village Panchayats, covering over 96 per cent of 579,000 inhabited villages and 92 per cent of the rural population, were established. On an average, a Panchayat covered a population of about 2,400 in two to three villages. (Mathew, 1995).

³ Planning Commission, Government of India (1996).

2. Rural Organisations

(a) Panchayats

(a.1) Organisational Design and Structure

2.1 Following the 73rd Constitutional (Amendment) Act, each State enacted its own provisions within the broad framework laid down. Salient features of the provisions in the State Acts are summarised in Tables A.1 - A.3.⁴ Despite the flexibility in the framework and the differences in the political regimes, there is a remarkable similarity in the organisational structure(s) enacted. Some of it was of course unavoidable in view of the provisions in the 73rd (Amendment) Act.

2.2 The salient features are: a three tier structure, comprising District, Block and Village Panchayats with the Gram Sabha 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 State and Panchayats, provision for executive and support staff, and a somewhat stringent procedure for dissolution/suppression of Panchayats and mandatory elections within 6 months of dissolution.

2.3 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.⁵ 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 Panchayat. All that was done was to reproduce unchanged or with minor modifications the lists from the 11th Schedule (added to the Indian Constitution following the 73rd (Amendment) Act).⁶ 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 Panchayat Samiti and Zilla Parishad. Also, the Collector (administrative head of a District) was not assigned any formal role. But at the same time the responsibility for two centrally sponsored poverty alleviation schemes, Integrated Rural Development Programme (IRDP) and Jawahar Rozgar Yojana (JRY), remained vested in an official agency, District Rural Development Agency (DRDA), which functions independently of the Zilla Parishad.⁷ Although financial viability of Panchayats was emphasised, the concerns of the State Acts were confined largely (to a more rational) allocation of resources between State and Panchayats. Given that many States are perpetually in deficit, regardless of the allocation criteria, the deficit at the Panchayat level is likely to persist. Little, if any, attention was given to tax assignment to and other forms of resource mobilisation (through matching grants) by Panchayats to enhance their financial autonomy and capability.⁸

⁴ As part of a larger study of Panchayats, a detailed analysis of State Acts in Maharashtra, Karnataka and Uttar Pradesh (U.P.) was carried out. For a more detailed discussion, see Gaiha (1996).

⁵ Approval of the Gram Panchayat budget by a simple majority of the Gram Sabha is mandatory in U.P. In Maharashtra and Andhra Pradesh, however, there is a provision only for the reporting of the budget.

⁶ For details, see Tables A1 - A3.

⁷ That the CEO of the Zilla Parishad is the chairman of the DRDA does not necessarily imply that the DRDA acts in consonance with the Zilla Parishad.

⁸ For some evidence, see Appendix 3.

2.4 Inadequacies of this structure are revealed more sharply when it is examined in terms of coordination between different levels of Panchayats on the one hand and between Panchayats and official agencies on the other, incentive compatibility between Panchayats and line agencies, and accountability of Panchayats to the Gram Sabha.

2.5 Overlapping areas of responsibilities, rigid and elaborate procedures, and weak monitoring and evaluation systems impede coordination between Panchayats and official agencies. Coordination failures result in delays in disbursement and utilisation of funds - especially at the Gram panchayat level. In fact, slow and uncertain disbursement of funds forces them to undertake small uneconomic projects.⁹

2.6 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 and the latter in turn reports to the Zilla Parishad - the informational and other requirements are far too demanding, especially at the Gram Panchayat level.¹⁰ Further, a delimitation of the roles of Panchayats at different levels as envisaged in the State Acts - the Maharashtra Act, for example, emphasises that Panchayat Samiti is an executive arm of Zilla Parishad - is not helpful without a clear demarcation of their specific responsibilities/duties. Finally, despite the primacy given to Panchayats in rural development, some key areas/schemes (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/guidelines are adhered to while Panchayats may have different but more specific concerns, some antagonism is unavoidable. However, if Gram Panchayats have greater accountability, some grants could be channelled directly to them, reducing substantially, if not eliminating altogether, the coordination failures.

2.7 An issue is whether there are incentives in the present structure for the elected representatives of Panchayats to respond to the needs of the community. Or, more specifically, whether the State Acts ensure that programmes/schemes assigned to Panchayats will be implemented in accordance with the needs of the community. Both the 73rd Constitutional (Amendment) and the State Acts emphasise the key role of the Gram Sabha in this regard. Specifically, two meetings in a year are mandatory. All development and other activities, and financial statements must be reported at these meetings. Elections after 5 years are mandatory. As this enforcement mechanism may not work well, the U.P. and Karnataka Acts also provide for dismissal of Chairperson of Gram Panchayat by the Gram Sabha. While this provision cannot be dismissed as inconsequential, it would be naive to overstate its importance. An incentive incompatibility also exists between the elected representatives of Gram Panchayats and staff drawn from line agencies. Although the latter are placed at the disposal of the former, their transfer and promotion decisions vest in the (parent) State department. As a result, compliance of line agencies with the concerns of Gram Panchayats is problematic. Whether a common set of performance indicators could be devised to circumvent the incentive incompatibility warrants serious consideration.

2.8 The State Acts emphasise financial accountability of Panchayats to the funding authority and not so much to the community. This is reflected in the importance given to financial reporting, preparation of budget, and auditing of accounts at each level of Panchayat. The concern is not limited to the balancing of revenue and expenditure but extends to compliance of expenditure with the

⁹ 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 Gram Panchayats, Echeverri-Gent (1993) found that the average cost of a project was less than Rs. 2000.

¹⁰ Maintaining up-to-date records is usually beyond the capacity of Gram Panchayats. Echeverri-Gent (1993), for example, found that at least 25 per cent of 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.

guidelines/norms prescribed for various schemes.¹¹ As a consequence, the limited autonomy that Panchayats are permitted is likely to delay implementation.¹²

2.9 Serious doubts persist about the accountability of Gram Panchayat to Gram Sabha, despite the key role assigned to the latter, for the following reasons. (i) Specific provisions for maintaining the minutes of Gram Sabha meetings and for displaying their decisions in public places are missing. (ii) In the absence of a monitoring system, it is not obvious how Gram Sabha will check whether the expenditures are in accordance with the decisions taken. (iii) In case there is deliberate default (e.g. embezzlement of funds), Gram Sabha does not have the power to dissolve Gram Panchayat. More generally, when there is multiplicity of goals and some are vaguely defined, it is difficult to assess the performance of Gram Panchayat.¹³

2.10 Is there a plausible explanation for the similarity of the organisational structures? It could be argued that this is usually the fate of top-down initiatives. Although this view has some plausibility, it is an over-simple characterisation of the decision-makers, as it fails to distinguish between bureaucrats and politicians and their (usually) divergent interests. If there is 'collusion' between them (tacit or otherwise), it is a special case. The 73rd Constitutional (Amendment) Act combined features on which there was a consensus (e.g. quotas) with those which allowed a great deal of flexibility to State legislatures in some crucial areas (e.g. composition of Block and District Panchayats, and allocation of responsibility among Panchayats at different levels). Thus it was convenient for politicians to consolidate/broaden their constituencies and to preserve or extend their patronage network.¹⁴ In other words, there were no political compulsions to evolve more specific or rigid structures. On the other hand, bureaucrats could secure their authority and control over the elected bodies if the existing administrative structure remained unchanged or intact. In this regard, the 73rd Constitutional (Amendment) Act did not pose any threats (the control of the DRDA over the IRDP and JRY, for example, remained intact). Hence there were no administrative imperatives either to fashion or design a completely new organisational structure of Panchayats. Consequently, the broad organisational structure embodied in the 73rd Constitutional (Amendment) Act was substantially reproduced. But this is not to suggest that the stronger group did not extend its domain of influence at the expense of the other. As illustrated below, given an unstable political environment, the official agencies overextended their domain. In another setting with a stable political environment and a clear cut role for the bureaucracy, there was a reallocation of responsibilities among higher levels of Panchayats, curtailing substantially the role of Gram Panchayats.

(a.2) Implementation

(i) Participation

¹¹ To illustrate, 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. It may in fact be self-defeating, as it is not uncommon for muster rolls to be manipulated in order to conform to this ratio.

¹² Echeverri-Gent (1993), for example, reports on the basis of his survey in West Bengal that, given the limited financial autonomy, a large number of Gram Panchayats waited until allotments were actually available before planning their usage.

¹³ 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).

¹⁴ Two out of the three states (with Maharashtra being the exception) allow for inclusion of MLAs, MLCs and MPs in Block and District Panchayats. But arguably Maharashtra is not so much of an exception as local politicians wield considerable influence among the Panchayats.

2.11 U.P.'s experience was in sharp contrast to that of Karnataka.¹⁵ While Karnataka was relatively quick in holding the elections, U.P.'s record was unimpressive. Specifically, elections to 30 per cent of the Zilla Panchayats had not been held, and, more seriously, Chairpersons for any of the Kshetra Panchayats had not been elected. Although part of the delay was due to political uncertainty (including the demand for a separate statehood for the hill areas) a major factor was the social resistance to quotas. That the latter was also a factor in delaying elections in Karnataka is evident from the controversy over reserved constituencies.

2.12 Although there were differences in the composition of membership of Panchayats as well - the members were younger, better endowed with land and education, and more active socially in Karnataka - there was a striking similarity too. In general, the Adhyakshas and Upadhyakshas (Chairmen and Deputy Chairmen, respectively) - especially at the Block and District levels - were mostly from (relatively) affluent sections.¹⁶ Some evidence for U.P. suggests that they not only manipulate elections of their nominees from poor strata but also make sure that as and when a meeting takes place it is a mere formality. Decisions taken by the Chairmen are formally approved by the members present.^{17, 18}

(ii) Devolution

2.13 Both the U.P. and Karnataka case studies point to serious aberrations.¹⁹ These aberrations took different forms: arbitrary reassignment of areas of responsibility, shortfalls in financial allocations, and lack of administrative and other support. These are considered in turn.

2.14 Out of all areas assigned to Panchayats in the U.P. 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; and so on. Above all, given that the District Magistrate is Chairman of the DRDA, and the CEO of the Zilla Parishad is subordinate to him in the official hierarchy, overall responsibility for some of the most important programmes (including the JRY and IRDP) vests in the District Magistrate. That the bureaucracy (or, more generally, official agencies) could overextend its (their) domain(s) in violation of the provisions in the State Act had a lot to do with an unstable coalition (between the Samajvadi Janta Party and Bhartiya Janta party) and unsettled conditions in the hill areas.

¹⁵ Based on the field-report of Sastry and Reddi (1995).

¹⁶ The evidence for U.P. is based on a survey of 100 Panchayat members in Shahpur Block in Muzzaffarnagar, conducted by Lieten (1996), while that for Karnataka is based on a much larger survey conducted by the ISS (1997). For details of the latter, see Appendix 1.

¹⁷ In 1995, half a year after their constitution, not a single meeting had taken place after the inaugural meeting. (Lieten, 1996).

¹⁸ The compliance with the wishes of the Chairman is usually related to economic reciprocity - as agricultural labourers on the land of the Chairman, or as recipients of IRDP loans or of houses built under government programmes, they are obliged. (Lieten, 1996).

¹⁹ The U.P. case study is based on field-work in Rae Bareilly, conducted by Sastry and Reddi (1995), and the Karnataka one on field-work in Mysore District, conducted by Satyamurthy et al. (1995).

2.15 The Karnataka case study points to another source of aberrations: relative bargaining strength and skills of Panchayats at different levels. Given a relatively stable political environment and a well carved out role for the bureaucracy, the battle-field shifted to the Panchayats. Most of the major schemes were monopolised either by the Zilla Panchayats or Taluk Panchayats, especially the latter, with a minimal role for the Gram Panchayats.²⁰

2.16 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 in the Act in question to the Gram Panchayat but are in fact dealt with by the Zilla and Taluk Panchayats; so is the case with the development of fisheries; promotion of rural industries is assigned in the Act to all levels of Panchayats but is in fact handled only by the Zilla Panchayat; Women and Child Development Schemes are also assigned to all levels of Panchayats but are in fact implemented only by the Taluk Panchayat; and, finally, while the implementation of the JRY is in accord with the provisions of the Act (i.e. a responsibility of the Gram Panchayat), the responsibility for land reforms remains to be transferred to them.²¹

2.17 Shortfalls in utilisation of grants are largely procedural in nature - 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 Panchayats - especially Gram Panchayats - find hard to comply with. Since the procedures have not been simplified and provisions for supporting staff are far from adequate, shortfalls in utilisation are likely. The more interesting issue is whether they are significantly larger than those that prevailed before the new Panchayat system was installed. While a definitive assessment cannot be given, some observations can be made on the basis of the figures reported for Rae Bareilly for 1993-94 and 1994-95 in the U.P. case study. The extent of under-utilisation of IRDP funds was several times larger than that of JRY funds in 1993-94 (27 per cent and 2 per cent of IRDP and JRY allocations, respectively). In both cases, the extent of underutilisation was larger in 1994-95 (29 per cent and 12 per cent, respectively). Given that Panchayats have a more important role in implementing the JRY than the IRDP, and greater transparency in their functioning and accountability to the community than official agencies (that administer the IRDP), the much larger IRDP shortfall is not surprising. The larger underutilisation in both cases in 1994-95 (relative to that in 1993-94) - especially of JRY funds - was arguably associated with the new Panchayat system. Although JRY funds were transferred directly by the DRDA/Zilla Parishad to Gram Panchayats even before the new system was launched, it is plausible that the newly elected Gram Panchayats took longer to utilise a much larger allocation (which rose by about 72 per cent), because of more elaborate procedures (e.g. need for approval by Gram Sabha) and lack of familiarity of elected members with them.²² On the other hand, utilisation of IRDP funds remained largely within the official domain, with the Gram Panchayats assisting in identifying the beneficiaries. As the allocation was virtually unchanged, some delay in utilising the funds could be due to (presumably) stricter adherence to the requirement of the Gram Panchayats identifying the beneficiaries.

²⁰ Whether the political affiliations of the Adhyakshas and Upadhyakshas - most of them at the Zilla and Taluk levels belonged to the Janta Dal (JD) while a slightly larger number at the Gram Panchayat level were affiliated to the Congress (I) - had anything to do with the reallocation cannot be ruled out. For details of the political affiliation, see Appendix 1.

²¹ There are a few other cases which continue to be in the official domain in violation of the provisions of the Act in question. However, as noted above, these are overshadowed by the reassignment between the Zilla and Taluk Panchayats. For more detailed illustrations, see Satyamurthy et al. (1995).

²² If the findings reported in Lieten (1996) are anything to go by, about 88 per cent of the members were newcomers. Such a large proportion of newcomers is directly a consequence of the quotas for backward classes and women.

2.18 Administrative and other support systems are weak and inadequate. The Karnataka case study draws attention to the ambiguity in the roles of Executive Officer of Taluk Panchayat and Block Development Officer (usually the latter combines both roles). But more seriously the Executive Officer is not provided any supporting staff (despite the fact that Taluk Panchayats have been given much larger scheme-wise allocations than Zilla Panchayats). Similar failures are reported at the Gram Panchayat level too. The constraints were not merely financial - a weak organisational structure largely at the mercy of the District Administration and Technical Departments had more to do with such failures.

(iii) Autonomy

2.19 Greater autonomy to Panchayats in designing and implementing schemes/projects, and in resource mobilisation could reduce significantly the mismatch between their original and agency functions.²³ Although the 73rd Constitutional (Amendment) Act sought to correct this mismatch, serious aberrations have appeared already. The Kerala experience is instructive. As part of the preparation of the Ninth Plan, it was stipulated that 35-40 per cent of the Plan outlays would be devoted to schemes/projects formulated by local bodies. Besides, in other schemes too, suggestions of local bodies would be accorded due importance. As a result, as elaborated in Appendix 2, sectoral/programme outlays reflected better the needs of the village community.²⁴ Moreover, a little under 45 per cent of the resources were to be contributed by the community/beneficiaries in labour, material and money. Recent evidence suggests that resource mobilisation exceeded optimistic expectations. In another village, given the high demand in neighbouring cities, the farmers were encouraged to cultivate vegetables as an income supplementing activity. Different sections of the community contributed to this scheme, with the Gram Panchayat coordinating their efforts and covering a major part of the cost. Additional annual income (per household) was by no means insubstantial. Initial success led to more ambitious plans for the next year and triggered similar experiments in neighbouring villages. Thus both the original and agency functions were transformed with a narrowing down of the mismatch between them.

2.20 Financial autonomy of Panchayats is of course a major concern in itself. As government grants are usually tied, and the revenue collected from taxes, fees and cesses levied by Panchayats is (relatively) uncommitted, a larger share of the latter would impart greater financial autonomy. As illustrated in Appendix 3, this share (at the level of Gram Panchayats) varies from a low of 1.0 per cent in Punjab to a high of 63.40 per cent in Kerala. A case study of Mandal Panchayats in Karnataka confirms that there is ample scope for enlarging this share, through the initiative and resourcefulness of their Chairpersons. Unfortunately, as noted earlier, most of the State Acts (following the 73rd Constitutional (Amendment) Act) - designed to deal with the distribution of functions and finances of Panchayats - reproduce the subjects in the Eleventh Schedule. As the tax and fee assignments are (in general) far from liberal - especially in the context of enhancement of areas of responsibility of Gram Panchayats - it is necessary to review them with a view to augmenting their share.

(iv) Empowerment

²³ According to Article 243-G of the Indian Constitution, the original function is "preparation of plans for economic development" and the agency function relates to "implementation of schemes for economic development and social justice as may be entrusted to them."

²⁴ Even before the new system was introduced, Panchayats (Councils) in Karnataka were responsive to the needs of the community. Crook and Manor (1995) observe: "Not only were projects implemented and services provided more expeditiously, but the Councils' priorities as reflected in expenditure allocations were largely congruent with the expressed needs of most villagers. Systems of early warning against natural disasters improved markedly, and absenteeism among employees decreased. The emphasis of development efforts shifted to infrastructural micro projects such as wells, roads, clinics and school buildings." (p.320).

2.21 Whether the 73rd Constitutional (Amendment) Act has contributed significantly to the empowerment of the rural poor - whether they have a more decisive role in the decision-making of Gram Panchayats - cannot be assessed for lack of detailed data. Nevertheless, some observations can be made.

2.22 Quotas for the poor - especially women - have mixed effects. That quotas divide or weaken the poor cannot be ruled out. Also, to the extent that the local power structure is deep-rooted, those elected would typically have the support of influential groups and consequently serve their interests.²⁵ The U.P. evidence on participation reviewed earlier is a case in point. On the other hand, quotas may legitimise power sharing over a period. On balance, therefore, their impact on the poor may be favourable but somewhat limited.

2.23 As noted earlier, if the 73rd Constitutional (Amendment) Act combined the quotas with more stringent guidelines for the implementation of anti-poverty programmes - notably land reforms and special employment programmes (e.g. the JRY) - the impact would have been greater.²⁶ Although some earlier evidence cited in Appendix 6 points to a stronger association between an index of decentralisation and performance indicators of the JRY and IRDP than that between an index of development and the latter, some other evidence also points to the need for better targeting of these programmes.²⁷ Without a betterment of their economic condition, despite the quotas, the poor are likely to have a minimal role in the decision-making of Gram Panchayats. The claim therefore that the 73rd Constitutional (Amendment) Act signifies "power to the people" is exaggerated, if not largely mistaken.

(b) Other Rural Organisations

2.24 As part of an earlier study, a survey of rural organisations was carried out in three States viz. Andhra Pradesh, Karnataka and Maharashtra.²⁸ Five major types of rural organisations viz., cooperatives, associations of producers, labour unions, associations of women and youth, and NGO's were covered. Data were collected on various indicators such as size of membership, sources of funding, frequency of election of executives, activities performed and their results, and constraints, over the period 1991-93. This period coincided with the initial phase of (essentially) macro policy reforms (sometimes referred to as structural adjustment). Since much of the evidence is descriptive/qualitative in nature, it warrants careful interpretation. A summary is given in Tables A.4 to A.6. As a detailed discussion is given elsewhere, a few specific cases are discussed below.²⁹ The focus is on participation of the poor, their autonomy in these organisations, impact on the poor and constraints under which they operated.

(b.1) Cooperatives

²⁵ This of course does not exclude the possibility of significant attitudinal changes over a period as a strong sense of public duty/responsibility is inculcated. (I owe this observation to Francine Frankel).

²⁶ Bardhan (1996) draws attention to a mechanism that is underemphasised in the literature: by changing the local political structure, land reforms (presumably redistributive) give more 'voice' to the poor and promote their participation in local self-governing institutions and management of local public goods.

²⁷ The targeting of the JRY (and an earlier version, the National Rural Employment Programme (NREP)), have been unsatisfactory. While the allocation of JRY funds conforms broadly to the incidence of poverty, their distribution within a state does not. Moreover, the proportion of the poor among JRY participants varies widely. (Gaiha, 1995 a, Echeverri-Gent, 1993, and GOI, 1994).

²⁸ For details, see Gaiha (1995b).

²⁹ With a few exceptions, the focus here is on village organisations.

2.25 Three cooperatives are reviewed below in detail, as they provide an interesting cross-section: Milk Producers' Cooperative (Gonavaram, Kurnool, Andhra Pradesh), Credit Cooperative (Lasanpur, Wardha, Maharashtra), and Milk Producers' Cooperative (Hunagundi, Dharwar, Karnataka).

2.26 90 per cent of the members in the Milk Producers' Cooperative (Gonavaram, Kurnool) in 1991-92 were either landless or small cultivators. However, the participation of females was low (barely 6 per cent). The executive committee comprised mainly the landless and small cultivators (11 out of 12). The representation of women (2 out of 12) was high relative to their membership. There was no government representative on the executive committee. Elections were held once in three years, and the general body met once a year. The meetings of the general body were well attended (with 40 to 60 per cent of the members present on average).

2.27 The Cooperative was entirely self-financed by members' contribution. Even though the value of milk sold was over Rs. 3 lakhs in 1991-92, with 50 per cent of the milk contributed by the landless and small cultivators, the surplus was barely Rs. 1600 (about 0.53 per cent of the sales revenue). The value of milk sold rose to Rs. 4 lakhs in 1992-93, with a slightly higher surplus of about Rs. 2500 (about 0.62 per cent of the sales revenue).

2.28 Failure to expand was largely due to financial constraints. Weak infrastructure (e.g. lack of office space) impeded smooth functioning. Limited managerial and technical skills further constrained the Cooperative's performance.³⁰

2.29 The Credit Cooperative (Lasanpur, Wardha) had a large membership (248) in 1991-92, which grew (268) in 1992-93. The majority of members (about 75 per cent) were large cultivators. The proportion of female members (about 14 per cent) was low. The executive committee did not have a single representative of small cultivators. There was 1 female member in a total of 9 in the executive committee. Elections to this committee were held once in five years. The general body met once a month. The attendance was usually good. It was financed mainly by the members and NGOs.

2.30 A large share of the credit (71 per cent) accrued to large cultivators and a small share (6 per cent) to small cultivators. Following a loss in 1991-92, the credit disbursed (Rs. 91,000) in 1992-93 was lower than that in the previous year (Rs. 132,000). However, it earned a moderate surplus (about 8.8 per cent of the total credit disbursed in 1992-93). No constraints were reported.

2.31 The Milk Producers' Cooperative (Hunagundi, Dharwar) is an unusual one in as much as it was dominated by female members (80 out of a total of 109 in 1991-92). This domination continued in 1992-93 (85 out of a total of 114). Most of the members of the executive committee were also females (8 out of a total of 9) in 1991-92. However, the performance of the Cooperative was unsatisfactory. The surpluses were negligible. An important factor was lack of technical skills. Besides, the executive committee lacked familiarity with the rules and procedures of cooperatives and, more importantly, entrepreneurial skills.

(b.2) Labour Unions

2.32 The Andhra Pradesh Labour Union (Hyderabad), affiliated to a political party, illustrates the potential of a mass-based rural organisation. Implementation of minimum wages, distribution of surplus land, house sites and loans for self-employment were its main concerns. Recently it was successful in extending maternity and pension benefits to agricultural labourers. However, in securing land tenure rights, its success was limited, due mainly to the weaknesses in the (official) enforcement machinery. Training of rural labourers to diversify their skills was not accorded a high priority. Nor was the Union enthusiastic about raising the membership fee to compensate for the higher cost of services provided.

³⁰ Although this was denied by the respondent, some corroborative evidence was found during the interview.

2.33 The Labour Union (Bangalore, Karnataka) provides a sharp contrast. Although both were affiliated to political parties, the Karnataka one reflected a strong urban bias. While it expressed a concern for implementation of minimum wages, enforcement of safety standards and regulation of working hours in rural areas, it was evident that the Union did not pursue these concerns. Nor were any specific concerns raised for agricultural labourers in the context of the inflationary impact of the policy reforms.

(b.3) Farmers' Unions/Associations

2.34 The Andhra Pradesh Farmers' Union (Hyderabad) demonstrates the potential of such an organisation in protecting the interests of small and marginal farmers during policy changes. As this Union was affiliated to a political party with a mass base, its membership was large. It was entirely self-financed by members' contribution. Frequent exchange of views took place between the members and Union representatives.

2.35 It concentrated on ensuring access of small farmers to subsidised agricultural inputs (e.g. fertilisers), remunerative prices for agricultural products (e.g. enhancement of procurement prices) and protection of tenancy rights. Given its mass base, it succeeded in lowering interest rates charged by local money lenders, ensuring uninterrupted release of water by the irrigation department for standing crops, and in raising procurement prices of agricultural products (in order to offset the higher cost of production).³¹ One major element which was conspicuous by its absence was a concern for preparing small farmers to adjust to the new policy framework with an emphasis on deregulation of price and quantity restrictions, withdrawal of subsidies and promotion of tradables. The changing product mix and associated changes in technology and skill requirements warrant a strengthening of extension services with a clear focus on small farmers. Close collaboration between this Union and extension agencies may help in chalking out a workable programme. Besides, the financial constraint under which this Union operates is likely to become more acute with the rising cost of services (e.g. transportation). If it chooses to remain self-financed, it has no option but to raise the membership fee. If this could be combined with training and other services for which the participants/beneficiaries are charged a small fee, some of the revenue could help augment the infrastructural support. But this will require recruitment of qualified staff.

(b.4) Women's Associations

2.36 The Women's Association (Korochi, Kolhapur, Maharashtra) had a small membership. It was self-financed (entirely by members' contribution). Its objective was to impart vocational skills to women. However, as it failed to secure financial support from either the government or an NGO, it had to suspend its activities. Considering the small membership and illiteracy of women, the prospects for such associations/groups are bleak. But, if they are involved in training programmes such as Development of Women and Children in Rural Areas (DWCRA), it could be a mutually beneficial relationship.

(b.5) NGOs

2.37 Unfortunately, neither of the two NGOs interviewed in Maharashtra gave detailed responses. Both were reluctant to discuss the financing of their activities: who benefited from them, and the constraints under which they operated, except in very general terms. The BAIF in Pune, for example, specialised in veterinary services - artificial insemination and vaccination of cattle. As the total expenditure was nearly Rs. 6 crores in 1989-90, it is not clear how this was financed. If the services paid for themselves, and small farmers figured prominently among the beneficiaries, the experience of this NGO would have been instructive.

³¹ The distinction between collaborative and adversarial organisational responses, emphasised in Drèze and Sen (1989), is particularly relevant in the present context. The adversarial role of this Union was successful principally because of its mass base.

(c) **Self-Management, Economic Betterment and Empowerment**

2.38 The evidence reviewed above is not sufficiently detailed to yield insights into the process of empowerment of the poor and vulnerable. It is therefore supplemented by two case studies of empowerment of women in Appendices 4 and 5. The first focuses on the activities of the Self-Employed Women's Association (SEWA) and the second on those of the Cooperative Development Foundation (CDF).

2.39 SEWA, founded in 1972, has played an important role in organising self-employed women for their economic betterment and empowerment. It has promoted a wide range of cooperatives - providing income earning opportunities in dairying, gum collection, patchwork and block printing, and social security support through health care, child care and insurance. In this promotional work, SEWA has had to perform both collaborative and advocacy work vis-a-vis government agencies and local groups/organisations. Empowerment of women has come about as a direct consequence of financing and management of these cooperatives by the women themselves. Of considerable interest is the collaboration between SEWA and the government sponsored DWCRA in Banaskantha District, Gujarat.

2.40 In the initial stage, SEWA helped women form their own DWCRA or producer groups, which later on federated into the Banaskantha DWCRA Women's Association (BDWA). Organising women into DWCRA groups was not easy, as reflected in the formation of the patchwork and embroidery group. There was widespread scepticism of government sponsored programmes. When the resistance was overcome, the group was encouraged to self-manage its affairs. BDWA provides a marketing outlet. On average, a woman now earns Rs. 500 per month. Patchwork and embroidery are a full-time activity. Migration has stopped. From the additional income, women buy assets (e.g. cattle) and invest in housing improvements.

2.41 Economic empowerment has had important implications for gender roles at the household and community levels. In some cases, given women's involvement in income generating activities and organisational work, men have started sharing domestic work. At the community level, women have become agents of change, through successful management of producer groups.

2.42 The Cooperative Development Foundation (CDF), founded in 1982, promotes women's credit and thrift societies in Andhra Pradesh. These cooperatives have empowered women economically as well as socially and politically. The process of empowerment is illustrated by the Mulukanoor and Narsampet Cooperatives. CDF helped with group formation and enhancement of women's management skills. Preparation of by-laws, conduct of meetings, accounting and monitoring of loan repayments are done by the members themselves. External financing is discouraged.

2.43 Over the period 1991-95, membership, savings and loans grew rapidly. The share of loans for productive purposes also grew. As a result, new businesses were started and old ones expanded. Membership of cooperatives enhanced credit-worthiness with other financial institutions.

2.44 As a result of cooperative membership, women now enjoy greater 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.

3. Government's Role

3.1 Drawing upon the experiences of Panchayats, cooperatives and other rural organisations, the promotional role of the government is discussed below.³² Broadly, the strategy has two parts: one concerned with the nature and scale of government involvement, and another focusing on reforms within the organisations. While it is recognised that the government has an important catalytic role in helping the rural populations mobilise their own human, financial and other resources, far too often government agencies get over-involved in managing rural institutions with unfavourable effects on their future growth potential.³³ As elaborated below, an appropriate role for government agencies is therefore to create an enabling environment which would allow rural organisations to grow and to perform their functions more effectively. Besides, to the extent that some of these organisations are unable to function effectively because of lack of professionalism, technical competence and entrepreneurial skills, the government also has an important capacity building role so that they develop into self-reliant organisations over a period of time. On the other hand, organisational reforms must take into account the conditions under which specific forms of cooperation among the members of a community are likely to succeed. Finally, for such organisations to be effective, a process of interest representation is also required.

(a.) External Environment

3.2 An important component is the legislative framework for rural organisations. The role of the government should be limited to a regulatory function relating to: (i) arbitration in disputes, liquidation or dissolution (e.g. cooperatives); (ii) enforcement of basic administrative requirements such as the conduct of annual general body meetings, submission of annual reports and audited accounts (e.g. Panchayats); (iii) however, in the context of organisations with a less formal structure (such as women's associations), there is need for greater flexibility to allow them to create their own internal group rules according to existing social links and practices.³⁴

3.3 Another major environmental factor is the economic policy framework. Although significant macro policy changes have occurred in recent years, the framework within which cooperatives and other rural organisations operate has remained largely unchanged. To illustrate, marketing cooperatives (e.g. for sale of fertiliser) would benefit from greater competition from private marketing channels; and credit cooperatives would become more viable if refinance and other forms of financial support are linked to deposit mobilisation.

(b.) Organisational Reforms

3.4 The first issue is selection of activities. Unless the organisation responds to a felt need of the community, it is unlikely to attract participants.³⁵ Also, if a service is provided (e.g. marketing) for

³² Although there are some contextual differences, the overall flavour of the discussion is similar to that of Hussi et al. (1993).

³³ To illustrate, financial support to credit cooperatives from National Bank for Agricultural and Rural Development (NABARD) discourages them from mobilising deposits. (Gaiha, 1995b).

³⁴ A recent study (Saxena, 1997) points out that, among other reasons, cooperatives have not flourished due to an overdose of State patronage and almost absolute control of the Registrar. Common cadres of chief executives of village cooperatives are hired, fired and paid by authorities accountable to the Registrar, with all costs being borne by the cooperatives. That such interference is not confined to cooperatives is illustrated by the experience of Gram Panchayats in U.P., as noted earlier.

³⁵ In a remarkable synthesis of insights from game theory, evolutionary biology and field studies of water management systems, Bardhan (1993) provides a synoptic view of the conditions under which cooperation is likely to be successful. An important observation is that, depending on hydrologic circumstances and the extent of ecological stresses, there is a backward-bending curve relating the success of cooperative organisation to water supply: when the latter is very scarce, cooperation is difficult to organise; at moderate levels of scarcity, chances of success are greater; and again when water is plentiful, the urge to cooperate is weak.

which the members are willing to pay, it is imperative that it is provided cost-effectively. Experience suggests that the participation of members is usually better when they have a financial stake.³⁶ While the government could act as a catalyst in promoting such organisations, the core groups have a key role in ensuring that the community participates. This issue is an important one since many organisations fail when the membership is small.³⁷ This is particularly relevant for women's associations which tend to be small.³⁸ Finally, overburdening of an organisation with multiple objectives must be avoided as it could stifle its growth. Management capacities grow gradually. Once an organisation becomes viable, it could diversify its activities.

(c) Capacity Building

3.5 If rural organisations are weak, the government has an important role in building their capacities so that they develop into self-reliant organisations. This process, however, must not be imposed from above. Rather, the organisations themselves must be closely involved in it.³⁹ Without a careful analysis of their past experience and a complete understanding of their constraints, the capacity building by the government could turn out to be an exercise in futility. Some more specific considerations are outlined below.

(i) Before promoting an organisation, it must be carefully assessed whether it is an appropriate type of organisation. Some formal organisations such as cooperatives are more appropriate for large volumes of business to cover their operational and overhead costs while less formal or informal groups may be more appropriate for activities which are seasonal and small in volume. The latter may also be more appropriate for ensuring wider participation of some disadvantaged groups (e.g. women) in economic activities. Depending on whether a formal or informal structure is more appropriate, the training and other needs of the organisation could be addressed.

(ii) In providing financial assistance to cooperatives engaged in a business activity which could pay for itself, targets must be set in terms of some performance indicators for them to dispense with financial assistance in a few years. The financial assistance to a cooperative engaged in export of horticultural products, for example, could be linked to reinvestment of surplus. This would of course involve close monitoring.

(iii) The organisational survey pointed to the absence of appropriate management systems and staff training in some cases. At the very least, efforts must be made to acquaint the executives and staff members with the basics of accounting, recording and other management systems which contribute to efficient internal control and provide data necessary for planning, execution and monitoring of business activities. This must be supplemented by periodic job-oriented staff training. In the context of women's associations, a general problem was the illiteracy of the members. As part of capacity building of such groups, it is therefore vital to include education of the general membership as an important concern.

(iv) Associations of disadvantaged groups such as labourers in rural areas warrant a special treatment. As the survey illustrated, even with a large membership, labour unions were not self-supporting. While it may be possible to raise the membership fee moderately, it

³⁶ This is not to suggest that shared norms of fairness and reciprocity, intra-group homogeneity and cohesiveness, and trust are unimportant. All of these matter too except that these are appropriately treated as given. For a lucid exposition, see Bardhan (1993).

³⁷ But cooperation is usually easier among small groups as they tend to be more cohesive. The emphasis here, however, is on financial viability.

³⁸ At least one women's association in the sample in Gaiha (1995b) admitted that it did not have funds to comply with the formalities of holding the annual general meeting.

³⁹ A large federation of cooperatives such as BDWA (Gujarat), for example, organised the training of the members of the cooperatives under it without any outside help. An important factor in their success, as illustrated in Appendix 4, was their self-management.

is unlikely that this will make a significant difference. As skill formation for a diversified rural economy is a high priority in the context of adjustment, it may be worthwhile for labour unions to engage in training rural workers in collaboration with government agencies. This could generate additional revenue for the labour unions. Government agencies and the firms likely to benefit from the skill formation could offer financial and technical assistance. As skill formation may have important externalities, the marginal social benefit of a given public expenditure may well be substantial. Setting of precise targets for government withdrawal may therefore not be advisable. As such activities may not become self-supporting in a short period of time, government support on a longer-term basis may be necessary.

4. Concluding Observations

4.1 The strategic role of the government in creating an enabling environment for rural organisations - Panchayats, cooperatives, labour unions, women's associations, etc. - and in building their capacities was elaborated. Alongside, it is imperative that some reforms within the organisations are also carried out. However, it must be recognised that their transformation into self-reliant organisations would be slow as management and other capacities take time to develop - especially in informal groups/associations.