

OVERVIEW OF RURAL DECENTRALIZATION

IN INDIA

Volume 1

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LIST OF ABBREVIATIONS

ACR	Annual Confidential Report
AP	Andhra Pradesh
BP	Block <i>Panchayat</i>
CEO	Chief Executive Officer
CFC	Center Finance Commission
CSS	Centrally Sponsored Schemes
DDP	Desert Development Program
DEA	Department of Economic Affairs
DPAP	Drought Prone Area Program
DPC	District Planning Committee
DRDA	District Rural Development Agency
EAS	Employment Assurance System
EGS	Education Guarantee Scheme
EO	Executive Officer
GOI	Government of India
GOMP	Government of Madhya Pradesh
GP	Gram <i>Panchayat</i>
IAS	Indian Administrative Service
IFS	Indian Forestry Services
IRDP	Integrated Rural Development Program
JRY	Jawahar Rozgar Yojana
JSGY	Jawahar Gram Samridhi Yojana
MLA	Member of Legislative Assembly
MLC	Member of Legislative Council
MP	Member of Parliament; Madhya Pradesh
NGO	Non Governmental Organization
OBC	Other Backward Caste
PRI	<i>Panchayat Raj</i> Institution
PS	<i>Panchayat Samitis</i>
Rs.	Rupees
SAS	State Administrative Service
SC	Scheduled Castes
SFC	State Finance Commission
SGSY	Swarnjyanti Gram Swarozgar Yojana
ST	Scheduled Tribes
TAD	Tribal Area Development
UNDP	United Nations Development Program
UP	Uttar Pradesh
VEC	Village Education Committee
VTC	Voluntary Technical Experts and Core
ZP	Zilla Parishad

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Objectives of the Study

This study is an Overview of Rural Decentralization. Its objective is *to inform the Bank of what is happening in rural decentralization in India.* Bank projects and policy work, across sectors, are increasingly coming to grips with a new reality in India, the *Panchayati Raj* Institutions (PRIs), the local governments in rural areas. Future Bank assistance, be it in education, health, rural development, or economic restructuring, will take place within this reality. The Bank assistance strategy needs to consider the opportunities created by PRIs to bring about more effective rural development.

Decentralization is the transfer of political, administrative and fiscal responsibilities to locally elected bodies in urban and rural areas, and the empowerment of communities to exert control over these bodies. In India, locally elected bodies are the *Panchayati Raj* Institutions (PRIs) at the district, block and village levels. The decentralization process is distinct for urban and rural areas. The 73rd amendment governs rural decentralization, whereas the 74th amendment mandates urban decentralization. Rules and institutions are different between the two. The system of the hierarchically three-layered rural government is clearly differentiated from local governments in urban areas, which are more autonomous in nature. While the PRIs have hitherto been attached to the state administration, the municipal authorities are disjoined and have had fiscal powers to raise resources for their additional fiscal requirements. In general there are lesser expenditure responsibilities for rural than urban governments. Another important difference is that the area and population under the jurisdiction of different urban bodies is different. This report focuses on rural decentralization.

Decentralization is not unique to India, but a global trend. Most developing countries are embracing decentralization whether in Latin America, Europe or East Asia. Decentralization is a worldwide phenomenon for at least two reasons (a) **need for political stability**--decentralization means a dispersion of formal political power to elected local-level politicians. This dispersion of power is a global trend¹. Political scientists suggest that this is an outcome of the declining credibility of the centralized state. Groups and jurisdictions that have historically been denied power now demand it, and governments are increasingly reluctant to oppose this demand with force. In a fundamental sense, decentralization is a strategy to maintain political stability; and (b) **more effective and efficient service delivery**^{2,3}. Decentralization is expected to achieve higher economic efficiency, better accountability, larger resource mobilization, lower cost of service provision and higher satisfaction of local preferences. According to this argument, devolving resource allocation decisions to locally elected leaders can improve the match between the mix of services produced by the public sector and the preferences of the local population. Because local officials have better knowledge of local conditions

¹ World Development Report 1999-2000.

² There is another argument cited in the literature—decentralization may actually cause a decline in the quality of the public service. It is exactly this concern that has prompted many countries in Latin America to favor a slow pace of decentralization.

³ Oates, (1972).

and are more accessible, closer and accountable to their constituents, they have the means and the incentives to be more responsive. Decentralization is thought to be particularly beneficial for rural development in disadvantaged jurisdictions. It usually entails a net transfer of fiscal resources from richer to poorer areas and leads to an increase in the quantity and quality of expenditures in these areas.

India puts high hopes on rural decentralization. It creates an opportunity for restoring confidence in government and for empowering poor jurisdictions in contrast to the difficulties faced in the past by an ineffectual and centralized administration. De Souza (1999), summarizes well the expectations put on decentralization as expressed by a large number of thinkers and organizations in India: (1) more accessible government; (2) speedier resolution of local disputes; (3) more legitimate government; (4) more accountable and transparent government; (5) a training ground for political leadership; (6) more competition in political leadership; (7) empowerment of the most vulnerable and disadvantaged groups; (8) better service delivery; and (9) a more balanced and sustainable development of the village.

This Overview is structured around three themes: The three themes are (i): design of rural decentralization at the center and state levels; (ii) implementation by the states; and (iii) participation of rural constituents. These themes were analyzed along three aspects where applicable: (a) political decentralization, the transfer of policy and legislative powers to local councils that have been democratically elected and establishment of mechanisms of accountability to local constituents; (b) administrative decentralization, the transfer of functional responsibilities in various sectors as well as staff resources to the jurisdiction of elected local governments; and (c) fiscal decentralization, the transfer of revenue, and expenditure authority to local elected bodies.

It focussed on three questions . These were:

- Where and how is rural decentralization taking place in India?
- What are the political, administrative and fiscal issues in design and implementation of rural decentralization?
- What is the reality of participation by rural constituents?

And avoided normative judgements on decentralization. The study focused on describing the extent to which Indian states have implemented the provisions of the 73rd constitutional amendment and what are the obstacles to fulfilling the vision of Panchayat Raj Institutions as units of self-government in rural areas. Nevertheless some recommendations emerged during the study regarding the possible road ahead for the Bank. These are listed in the last part of the Executive Summary and are presented to initiate a discussion and generate a consensus within the Bank on the subject for later presentation to the government.

The Overview is presented in three reports. The volume at hand (Volume 1) summarizes the findings from the field and investigations and reviews, which are

presented in Volumes 2 and 3. Volume 1 discusses the historical background and design at the center (Chapter 2), the design at the state level on legal and fiscal aspects (Chapter 3), the implementation at state level as seen from the field (Chapter 4); participation by the rural constituents (Chapter 5), and the road ahead (Chapter 6).

Key Findings

Past attempts towards rural decentralization in India were highly unsuccessful, and PRIs remained non-functional. Since independence there has been an agreement on the need for rural decentralization, but the design in the various attempts faced inadequate institutional, legislative or policy environments for implementation. As a result, past attempts were unsuccessful, with the PRIs haunted by bureaucratic and political resistance at the state level to share power and revenues, inadequate resources and capacity, and domination by the elite. They nevertheless provided lessons and helped shape constitutional initiatives that came later.

The 73rd Amendment was a formal instrument introduced by the center, and blessed by the State Assemblies, to force a minimum level of rural decentralization uniformly across all states. After ratification by more than half of the State Assemblies, and after obtaining the assent of the President Act, the 73rd Constitutional Amendment of 1992 and the Provisions of the *Panchayats* (Extension to the Scheduled Areas) Act of 1996 established mandatory provisions for decentralization to local governments in rural India. These include (i) the creation of a three-tier local government structure at the district, block and village levels; (ii) constitution of state election commissions and state finance commissions; (iii) regular PRI elections with seat reservation for SCs/STs and women; (iv) establishment of *Gram Sabha* (village assembly) to exert control over local government, and (v) periodic auditing of local governments' accounts.

The Constitutional Amendment mandates political decentralization, leaving issues of design and implementation on sectoral, administrative and fiscal aspects to the States. To provide an appropriate legislative framework to ensure minimum stability and continuity of local governments, a constitutional amendment was necessary. The Constitutional process required ratification by state politicians. To ensure state support to the Amendment, the scope, details and pace of its implementation were left to the discretion of state governments and their legislatures. These included the definition of powers of *gram sabhas* (village assembly) and the transfer of sectoral, administrative and fiscal responsibilities to PRIs.

As a result, rural decentralization while initiated by the center has become a state affair. The Amendment has, for all practical purposes, delegated responsibilities for the design and implementation of decentralization to the states. This is done either through explicit provisions, or by omission. The State governments are given the discretion to translate the intended objective of the Amendment into State legislation keeping in mind their own local contingencies. States have furthered the design of decentralization through State Acts and Government Orders. But with such a wide area of discretion, especially on such a crucial aspect of *power and authority* of PRIs has enabled the

continued control of the third tier, the PRIs, by the second tier, the States. For example, the State Acts have not clarified the extent of power the PRIs and responsibilities of the different tiers of PRIs nor the jurisdictional issue between PRIs and administration. This remains a grey area perhaps deliberately so since in the absence of clear jurisdictions the state administration retains the power. Concerns have been raised as to the quality of the process since important matters such as service delivery (including local capacity building), transfer of responsibilities and powers to rural local bodies, the degree to which rural communities are able to control local bodies, the *de facto* inclusion of minorities and disadvantaged groups have apparently been left to the state administration. Today PRIs are not yet 3rd tier of the government, but an extension of the 2nd tier.

While key design aspects of rural decentralization have been completed at the center and state levels, implementation is lagging. The 73rd Amendment, State Acts and the State Finance Commission reports set up basic political, administrative and fiscal structures of rural local bodies. But while political decentralization has progressed satisfactorily, administrative and fiscal decentralization are happening at a much more hesitant pace.

Political decentralization has been highly successful. States modified their Acts consistently with the requirements of the 73^d Amendment, and most of them have carried out local elections, albeit with delays relative to the constitutional provisions.⁴ The Acts, mandated by the amendment have provided uniformity in terms of three-tier local governments at the district, block and village levels—Zilla Parishads at the district level (ZP), Panchayat Samities at the block level (PS), and Gram Panchayat at the village level (GP). Participation in the local election process is high.

However, issues of accountability remain. Mechanisms of accountability, and in particular *Gram Sabhas* are not working, and neither are the right of recall, the vigilance committees or recourse to higher authority. People do not see *Panchayats* making decisions that are relevant to their lives, probably because PRIs have neither the resources to undertake development, nor the power to influence existing programs. *Gram Panchayats (GPs)* have become multi-village institutions and the resolution of competing village demands is made through less than perfect, sometimes opaque decision processes. Voting and rules of voting procedures within PRIs are not specified as mandatory in the *Panchayat Acts*. And caste and gender bias pervade the workings of PRIs, despite the reservations.

Progress on administrative decentralization has been hesitant. At the design level, most State Acts have broadly defined powers and functions to be devolved to PRIs, from the indicative list of 29 functions in the XIth Schedule of the Constitution. However, in most cases, the criteria driving the decision of devolution of functions is unclear. Moreover, there is no clear demarcation of functions between the three tiers of the *Panchayats*, generating a confusing and uncertain situation, and threatening

⁴ According to Mathew (1999) twenty states passed the required new legislation only in the last month of the mandated period for legal reform. In several key states PRI elections were held only after the due period (e.g. Tamil Nadu, Kerala), after the Supreme Court intervened (Orissa), or have not yet been held (Bihar, Haryana).

accountability. Even where roles are defined, few states have matched responsibilities with the necessary administrative reforms, such as staff transfer, issuance of Orders, changes in administrative rules, etc.⁵ It is therefore unclear what does transfer of powers translate into in terms of the ability of PRIs for making decisions that actually make a difference. The roles of state bureaucracies have not yet changed noticeably with the new thrust towards decentralization nor are there clear strategies for redefining their functions in a decentralized framework. More often than not state bureaucracies keep control over key decisions involving resource allocation, or immerse local governments in cumbersome administrative procedures that make life difficult for them.

Fiscal decentralization is lagging. Each state set up a State Finance Commission (SFC) within one year, recommending resource allocation and creation. However, in the absence of clear transfer of functions, all SFCs face the problem of accessing the resource requirements of local bodies. They unanimously recommended that whenever state governments decide to devolve any of the functions of schedule XI of PRIs they must also devolve finances along with the functionaries and empower them to discharge their responsibility effectively. But, implementation of fiscal decentralization is not happening. Firstly, there is neither transparency nor reliable information regarding the fiscal situation of PRIs and their expenditure authority. Secondly, only minimal fiscal decentralization has taken place. In all seven states PRIs have a few taxes and fees but they are heavily dependent on transfers. The total shares of revenues and expenditures that accrue to PRIs as a percentage of all in state revenues and expenditures ranges from about 1% to 4%. This is very low by international standards. Moreover, most of the funds reported in PRI budgets are not under the control of local elected authorities. Untied funds, over which PRIs would be able to make allocative decisions, are virtually negligible.

Rural constituents are not yet participating actively in local governments. A field investigation was carried at in six districts of Rajasthan and Madhya Pradesh to assess the preparedness of rural constituents to participate in and seize the opportunities created by decentralization. People participate in the political process but show low levels of interest in PRIs as an instrument of democracy and development. People do not participate in the accountability mechanisms and in particular in the *gram sabhas* which on average were attended by only seven percent of eligible population. The explanation for lagging participation is that people perceive little benefit from GPs given the scarce resources under their control. Elected PRI representatives themselves, at every level, feel marginalized.

And there are issues of inclusion. In the villages investigated, males, well informed citizens, and educated people were the most likely to be active in the *panchayats* while landless people, tribals and women were less active. In general women were the most disempowered. Participation was not affected by caste or land holdings. Education and access to information are the two most significant influences associated with participation and participation rates among women rise considerably with access to information. There is no evidence that reservations contribute to inclusion. Nor is there evidence that

⁵ Karnataka, MP and UP seem to be the most advanced in this regard.

reservations reduce the effectiveness of GPs. Finally, also there is no evidence that the presence of civic organizations enhances participation in PRIs.

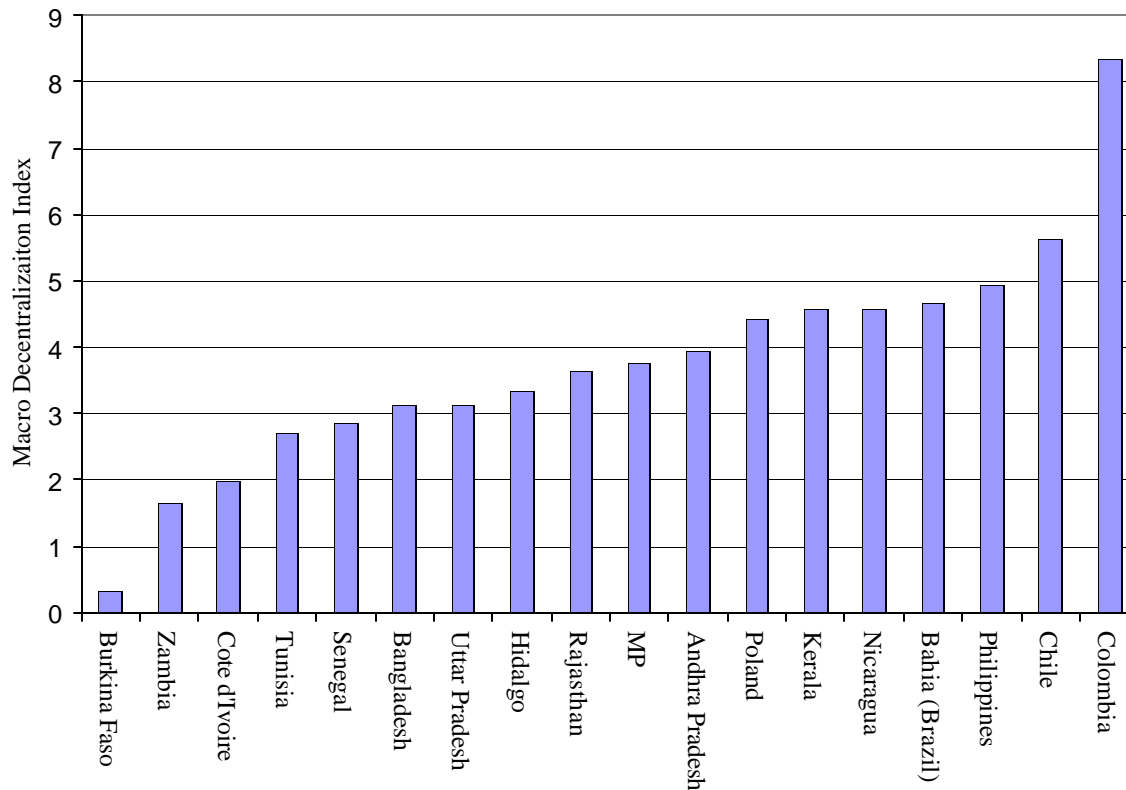
Key Conclusions

While the state decentralization models are similar, there are differences in the past in design and pace of implementation. Because of a centralized form of government, all states are at the same level of political maturity⁶. More fundamentally, the constitutional amendment has brought about a uniformity on the political structure of local governments. The amendment has mandated a three tier local government structure, accountability mechanisms such as the *gram sabhas* and mechanisms to promote inclusion, namely the reservations for women and SC/STs. All states have put these mechanisms in place. There are some differences in design between states primarily on the relative sizes, roles and importance of gram, block and Zila Panchayats. For example, AP has prioritized the district level, while Rajasthan has given maximum importance to the block level. Other states have focused on gram panchayats. Within the basic model there are also differences reflecting speed of implementation. Kerala has transferred more fiscal resources to PRIs as untied grants than any other states. And Maharashtra has moved faster in bringing sectoral staff under the control of PRIs.

Rural decentralization in India is at a stage not much different from other developing countries. Indicators were developed to provide an overall measure of the status of decentralization in India, and allow comparisons with other countries. These indicators were applied to a sample of 20 countries/states in Asia, Africa, Latin America and Europe. According to the overall indicator of decentralization, Indian states, with some variations, ranked similar to countries or states such as Bahia in Brazil, Nicaragua, Poland, Hidalgo in Mexico or Bangladesh. There are differences however in terms of the various dimensions of decentralization. Broadly speaking Indian states are amongst the most politically decentralized, are at the level of other countries/states on fiscal decentralization, and are lagging on administrative decentralization.

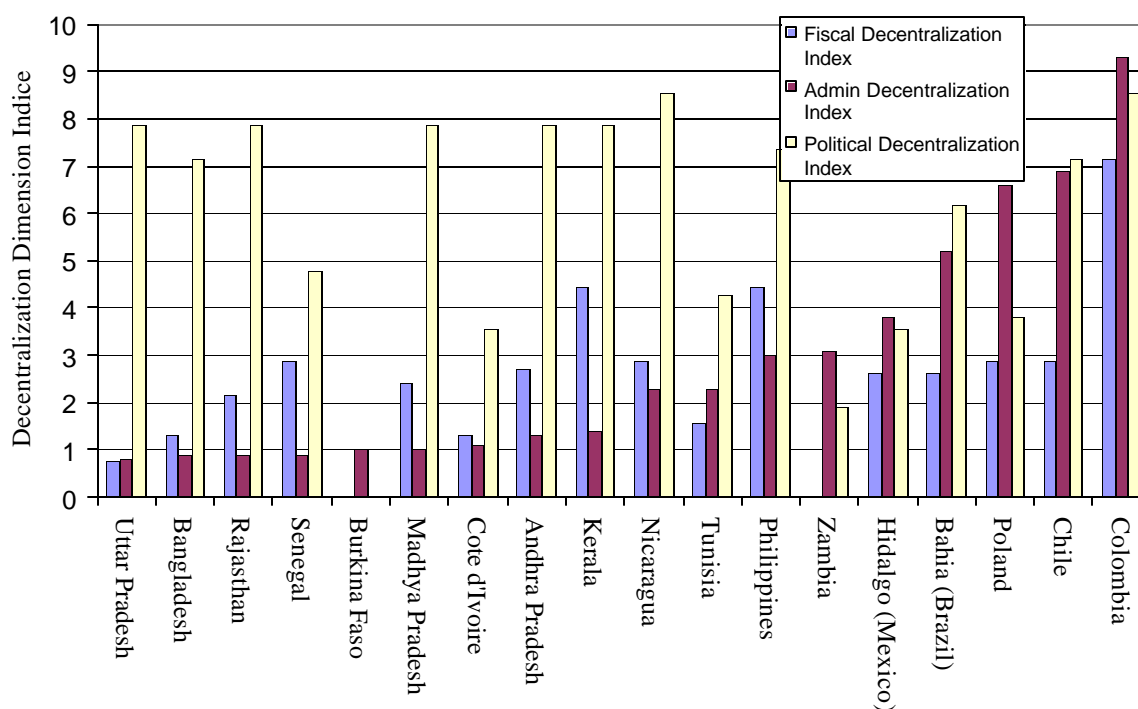
⁶ Exceptions maybe the more leftist governments of Kerala and West Bengal.

Figure 1: Macro-Decentralization in India in an International Comparison



Indian Rural Decentralization is unbalanced. While India is among the best performers on political decentralization, it ranks close to last on administrative decentralization. International experience suggests that in order for decentralization to be effective, it needs to be balanced along the three key dimensions – political, administrative and fiscal. Decentralization in India is unbalanced. Imbalance between dimensions undermines the functioning of the intergovernmental system. Political decentralization tends to precede the other two types because in many ways it is easier to do. The world over, electing local governments seems to be much easier than vesting them with administrative control over significant functions or fiscal autonomy. But unless the imbalance is corrected through greater fiscal and administrative decentralization, Indian states are unlikely to evolve effective PRIs.

Figure 2: Unbalanced Decentralization in India in an International Comparison



Today, PRIs do not have the capacity to perform to expectations. The Indian Constitution defines PRIs as institutions of Self Government. This means, there must be unambiguous administrative, fiscal, and political devolution such that local governments are empowered to address local development needs. The study finds there are no rural self-governments in India today. Political decentralization has been largely successful, with elections held regularly and with ample participation. But there is only minimum administrative and fiscal decentralization. Hence PRIs do not have the capacity to implement assigned functions, which remain *de facto* under the control of the state administration. And because PRIs control few resources, do not make relevant decisions, and are dysfunctional, the rural constituency shows little interest in them.

But PRIs are here to stay. Through the 73rd amendment to the Constitution and subsequent developments, local government took on a qualitatively different hue in India. Local elections have energized the system through new political institutions—politicians with a local base are emerging, with a firm hold in specific places. The system now in place is significantly different from earlier, to a large extent failed, experiments in *Panchayat Raj*. In the context of coalition politics at the national level, where States have become powerful actors and hence have to be secured by political parties so that they can forge winning national coalitions, parties are trying hard to consolidate their mass base. State governments, ruled by different political parties, have begun to compete with each other to design better and more effective mechanisms for reaching to the grassroots. This, some hope to do by building up the allegiance of the emergent

leadership of PRIs and also by improving service delivery. The picture on the ground is a complex one, with much variation across regions, even within a state. All this makes the ongoing decentralization process in India very important, and very genuine. The 73rd constitutional amendment PRI experiment that has been underway for nearly 7 years now has already exposed one generation to the system. It has, in these years, gained momentum and legitimacy as a result of which it has changed the agenda of politics in India. Already PRI elections are being fought more intensively than one would expect given the current devolution of powers and resources (e.g. UP 2000). The new group of leaders who will be contesting the second round of elections due to start will have a baseline on which to build. The PRI system has taken root.

Recommendations for discussion within the Bank

Rural decentralization and PRIs are a profound change in the Indian rural institutional scene. They may offer a better option for rural development and poverty alleviation. Disadvantaged jurisdictions could be the main winners. They are an alternative to the unresponsive, rent-seeking, inefficient bureaucracy. PRI institutions are here to stay and there are powerful movements pushing the decentralization agenda forward. It is an important opportunity. But there are big risks also. Past attempts at decentralization failed in India, in part because of resistance of the vested interests of the bureaucracy and state level politicians. These vested interests remain. If not carefully designed, sequenced and implemented, decentralization can increase the fiscal burden on the states and lead to a break-down in service delivery, in particular to the poor. In this context the Bank can play a useful role.

1. **An internal, cross sectoral, discussion of this Overview needs to take place in the Bank.** An event or meeting to discuss decentralization in general in India, the conclusions of this report, and in particular the recommendations below, should take place shortly. The discussion should focus on (a) potential role of the Bank in supporting PRIs, and (b) recommendations, if any, to the Government of India and State governments arising from this Overview.
2. **The role of the Bank in supporting PRIs should be focused on reform states and the following activities (to be subject to internal discussion in the Bank):**
 - **Up-front with government on the role of the Bank on supporting the state's strategy for rural decentralization**
 - **Use statewide reform programs to further rural decentralization.** Rural decentralization needs to be fully considered in Bank supported statewide reform programs. **First** the Bank should engage state governments in repackaging some of the hundreds of schemes and programs assigned in principle to PRIs into a system of block, preferably untied grants. **Second** it should seize the space created to assist states in revisiting the revenue powers of PRIs and identify actions to improve own revenues, either through direct, assigned or shared taxation, and improved cost recovery. **Third** it should engage state governments on administrative reforms to effectively bring local administration under the

control of PRIs. **Fourth** it should engage state governments in giving priority to issues of transparency and information related to powers and duties, rules and procedures, and fiscal flows, to all levels of government and the public at large.

- **Carry out analytical work on decentralization at the state level.** Two urgent areas for analytical work were identified. The **first** area is on fiscal decentralization. First there is no transparency whatsoever on fiscal flows to PRIs, nor on rules associated with those flows. Hence there is no basis on which to build a reform agenda. Second there is a need to further the capacity of PRIs for local resource mobilization, but this requires detailed reviews of powers and obstacles to local taxation and cost recovery. These should be the basis of state focussed studies. The **second** area would be to assist state governments in determining the appropriate functional assignments of each level of PRI (District, Block and village). This work should withdraw on international good practice on sectoral assignments between levels of governments.
- **Support State level projects to build the capacity of PRIs.** Three types of lending operations to states would make sense in India at this stage. The **first one** would be focussed on decentralization reform management, and would be based on technical assistance, at the state or central level, namely to increase the transparency of the process and monitor what is happening. The **second one** would provide budgetary support to states to initiate a system of block and matching grants for PRIs, conditional on achievements on administrative and fiscal reforms. The **third one** would focus on PRIs and constituents. It would provide technical assistance to (i) enhance governance capacity; (ii) increase information to constituents; (iii) improve their capacity to collect local revenues; (iv) improve their capacity for service delivery; and (v) support democratic literacy and influence campaigns.

3. **The Bank should draw some recommendations from this overview to present to the Government of India and State governments.** The following are the recommendations suggested by the study team.

- GoI and state governments need to clearly define the roles and sectoral responsibilities of the three levels of PRIs, at the district, block and village levels, and endow them with the adequate capacity including resources to enable them to deliver services within their areas of responsibility. This must be done simultaneously on four fronts:
 - a. **First**, sectorally, states need to define functions of PRIs (district, block, village) according to principles of cost efficiency, resource allocation efficiency, distributive efficiency, and accountability, and using experience from other countries.
 - b. **Second**, on the fiscal front, the mechanisms for transfers to PRIs need to be redesigned to increase expenditure autonomy and reduce revenue dependency. States need to (a) increase the share of transfers to PRIs from state governments

as untied grants, by (i) consolidating state schemes with broad rural development objectives into untied grants, as Kerala has done; (ii) making these grants a share of state revenues, (iii) explicitly defining through state legislation a formula to allocate grants to jurisdictions and PRI levels; and (iv) depositing the funds in bank accounts controlled by PRIs; and (b) based on population, poverty and efficiency, increasing the sources of own revenues of PRIs through own and assigned taxes and increasing their capacity to collect. The Center needs to modify CSS targeted at broad development by making them less tied, similarly to what has already been done with JGSY.

c. Third, on the administrative front, local civil servants need to be brought under the direct control of local bodies by making the latter responsible for conditions of service – salaries, promotions, discipline and transfers. At minimum, PRI heads should write the ACR of the *panchayat* CEOs and each committee chairperson should initiate the ACR of the sector head at that level (e.g. district health officer, block education officer).

d. Fourth, on the political front, a number of procedures within PRIs need to be redesigned by (a) choosing the *sarpanch* by indirect election by the *panches* to make him/her accountable to them; (b) adopting voting rather than consensus as the means for making-decisions; (c) making the ZP chairperson the chairperson of the DPC (except in predominantly urban districts), (d) excluding state Ministers from DPC meetings, (e) not giving voting powers to MLAs, MPs, Collectors or CEOs in DPC meetings, and (f) excluding MLAs and MPs from *zilla* and block *panchayat*s.

- On **inclusion** there are no simple solutions. Decentralization challenges the very precepts of a highly stratified culture and thus both threatens perceptions of order in society as well as existing power relations. Continued support for effective access to basic education for marginalized people is prerequisite to more equitable participation in PRIs. Other actions which would improve inclusion are:

a. Support for democratic literacy or information drives, not just for elected representatives but also for the general electorate.

b. Establishing mechanisms and activities which ensure that existing instruments of accountability function as intended, such as: PRI and accountability monitoring systems, spot checks, effective social or development audits and placing annual appraisals of public servants' performance at least partially in the hands of citizens.

c. More immediately, representatives from different levels of PRIs (district, block and village) and representatives from special groups – women, backward castes and tribal people – need to increase their ability for collective action and public representation through their own organizations, both at the state and national levels. Building and support for such organizations, where local

initiative is lacking, may best be done by non-government organizations. However, in the absence of these the administration could consider support for professional bodies of facilitators.

4. The Bank should disseminate this Overview in India after it is duly reviewed.

There seems to be support for the observations and conclusions of the report, and in particular for going out with an independent, fairly critical, view of decentralization, since this could go a long way in broadening the quality of the dialogue between the various stakeholders in India. There is interest among donors, and the Ministry of Rural Development, in organizing a national workshop to discuss this report, as well as other reports developed by donors (e.g. United Nations Development Program) and government. Similarly, states have requested copies of the report, and state representatives should participate in the National workshop, or separate State workshops should be organized to ensure well informed discussions of the observations. Such workshops should include both representatives of state administration and local political bodies. Following this/these workshops this Overview (3 volumes) should be disseminated as a book.

1. OBJECTIVES OF THE STUDY⁷

This study is an Overview of Rural Decentralization in India, the first formal Bank study on this topic. Its objective is *to inform the Bank of what is happening in rural decentralization in India*. Bank projects and policy work, across sectors, are increasingly coming to grips with a new reality in India, the *Panchayati Raj* Institutions (PRIs), the local governments in rural areas. Future Bank assistance, be it in education, health, rural development, or economic restructuring, will take place within this reality. The Bank assistance strategy needs to make use of the opportunities created by PRIs to bring about more effective rural development.

India is a very large and complex country with states that are larger than most countries in the world. Rural decentralization is essentially a state affair, and each state is following its own model. Five, at times six levels of government are involved,⁸ with over 1.5 million locally elected politicians making decisions that affect over 700 million people, 400 million of which are poor. Many books and papers have been published since 1990 on decentralization in India. They cover a wide range of topics, from electoral processes, to local finances, to gender exclusion, to local delivery of health or veterinary services. Politically rural decentralization is a sensitive matter. It is at the core of Constitutional debates, is addressed by Central Finance Commissions (CFC), is key for the delivery of rural development and safety net programs, and it involves amounts of money that although not large, are, at the margin, important for bankrupt states.

The challenge was to keep this first study simple, focussed, time bound and feasible. The Overview did not attempt to answer every possible question on decentralization; other studies by the Bank or others will follow. It is intended as a descriptive study of what is going on. The goal is to describe to what extent has India implemented the provisions of the 73rd Constitutional Amendment. It avoids making judgements on India's rural decentralization model. The study necessarily had to make difficult trade-offs: it favored coverage over depth, description over analysis, a group of states rather than the whole country. It stayed away from urban decentralization which, in India, is moving along a different path. It avoided issues in Central/State relations. Nevertheless it is hoped that this Overview will leave the Bank in a better position to offer its assistance to the Government of India (GOI) and state governments on this important area of institutional reform.

⁷ This study results from a joint effort of a team of Bank staff and consultants who contributed with reviews, reports and background papers, presented in Volumes 2 and 3. The bank team included staff from SASRD, SASSD and SASPR: Ruth Alsop (SASSD), Luis Constantino (SASRD), Achim Fock (SASRD), Stephen Howes (SASPR), Yoshiko Masuyama (SASRD), William McCarten (SASPR), Geeta Sethi (SASRD), and Jayashree Srinivasan Shahria (SASRD). The consultants were Peter de Souza, Shikha Jha, Anirudh Krishna, Anand Mathew, Keith McLean, Pragya Tiwaari, D. Rajasekhar, Shashikala Sitaram, Disa Sjoblom, Siddharta Srivaramakrishna, and Vinod Vyasulu.

⁸ Several state governments (e.g. Kerala, MP) are developing institutional structures below the Gram Panchayat level, at the neighborhood or village levels.

This Overview is structured around three themes: (i) design of rural decentralization at the center and state levels; (ii) implementation by the states; and (iii) participation of rural constituents. These themes were analyzed along three aspects: (a) political decentralization, the transfer of policy and legislative powers to local councils that have been democratically elected and establishment of mechanisms of accountability to local constituents; (b) administrative decentralization, the transfer of functional responsibilities in various sectors as well as staff resources to the jurisdiction of elected local governments; and (c) fiscal decentralization, the transfer of revenue, budgeting and expenditure authority to local elected bodies.

The Overview focussed on three questions. These were:

- Where and how is rural decentralization taking place in India?
- What are the political, administrative and fiscal issues in design and implementation of rural decentralization?
- What is the reality of participation by rural constituents?

The study is an Overview and the methodology is simple. Moreover, it was important to reach conclusions that could also be easily reached by everybody else. Therefore it is based on observation and common sense; although it is also supported by evidence collected through four methods: (1) reviews of the Indian literature, legislation and fiscal reports⁹ (2) structured as well as non-structured interviews with a large number of stakeholders in capitals, districts, blocks and villages in seven states; (3) an empirical investigation in 53 villages in MP and Rajasthan; and (4) an international comparison of key features of rural decentralization between Indian states and with other countries. The seven states were selected based on their relevance for Bank assistance or their relevance for India's decentralization experience. The states were: Andhra Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh (UP). Of other states with relevant experiences the Overview missed Gujarat and West Bengal.

The audience of the study is Bank staff. Among those it is directed at staff working in India. The Overview hopes to offer them background information and a structured, issue oriented discussion of where India and key states are in the process of rural decentralization, as background for projects or policy work affecting rural areas. The results though are likely to be of interest to a much wider audience, namely policy-makers in India.

⁹ Key studies consulted include S.P. Jain (1999); Choudhary, R.C. and R.C. Jain (eds.) 1999. Strengthening Village Democracy, NIRD; Prasa, R.R. and K. Suman Chandra. 1995. Reservations for Scheduled Castes and Scheduled Tribes in Panchayati raj Institutions: Policy Implications in S.P. Jain and T.W. Hochgesan, Emerging Trends in Panchayati Raj; Satish Chandra, T.R. (1993), pp. 15-30; Mitra, S (1995), pp. 141-153; Ranga Rao, SP (1995), p. 11; Krishna, S. (1993), pp. 87-100; Ramachandran, V. (1993), pp. 1-6; eenakshisundaram, S.S. (1993), pp. 101-108; Krishna, S. (1993); Hooja, R. (1997), pp. 723-737; Special issue on PRI Finances of Kurukshetra, April 1996; Singh, S.K. (1996), pp.22-27; Girglani, J.M. (1993), pp. 39-63; Mitra, S and Dubey, A.K. (1997), pp. 685-695; Oomen, M.A. (1999), pp. 142-172; Prudhomme, R. 1995. The Dangers of Decentralization, The World Bank Research Observer, vol 10, no 2, pp. 201-220.

The Overview is presented in three reports. The volume at hand (Volume 1) summarizes the findings from the field investigations and reviews, which are presented in Volume 2 and 3. Volume 1 discusses the historical background and design at the center (Chapter 2), the design at the state level on legal and fiscal aspects (Chapter 3), the implementation at the state level as seen from the field (Chapter 4); participation by the rural constituents (Chapter 5), and the road ahead (Chapter 6). This later section is intended to generate discussion within the Bank on this topic. Chapter 7 lists the background papers. The references are presented in footnotes and Chapter 8. Volume 2 provides details of field investigations and the degree of implementations of decentralization in seven states. Volume 3 is made of five thematic background papers covering the political process that led to the Constitutional Amendment, the status of fiscal decentralization in seven states, the results of an empirical investigation on participation of rural constituents in MP and Rajasthan, a partial literature review and a list of organizations providing support to PRIs.

Box 1: What is decentralization?

Decentralization is a process through which authority and responsibilities for some substantial government functions are transferred from central government to intermediate and local governments, and often also to communities. In this study decentralization is investigated along three dimensions: political, administrative and fiscal decentralization.

Political Decentralization transfers policy and legislative powers from central governments to autonomous, lower level assemblies and local councils that have been democratically elected by their constituencies.

Administrative Decentralization places planning and implementation responsibilities in the hands of locally situated civil servants and these local civil servants under the jurisdiction of elected local governments.

Fiscal Decentralization accords substantial revenue and expenditure authority to intermediate and local governments.

Self Government exists when a level of government has dominion over substantial, clearly defined functions, and can pass/enact laws with regard to these functions within its area of jurisdiction—state, district, village, etc. For self-government to exist there must be unambiguous political, fiscal, and administrative devolution of assigned subjects.

2. DESIGN AT THE CENTER

A. HISTORICAL BACKGROUND

India is huge with many states having a population of more than 50 million, dwarfing most sovereign countries in the world (UP alone has more than 150 million people, a population equivalent to Brazil). To democratically govern a country of this size requires several tiers of government. Even though decentralization has been an issue of concern in India for over a century, until recently there were generally only two federated tiers of government center and state. This section summarizes the process leading to the 73rd Constitutional Amendment and its key features. The complete analysis is presented in Volume 3, in Background Paper 1: de Souza, Peter. 2000. “Multi-State Study of Panchayati Raj Legislation and Administrative Reform”.

I Pre-Independence

During pre-independence, all efforts were towards administrative decentralization only. The first attempt was after the 1857 mutiny with the British administration coming under severe financial pressures. Initially the focus was on municipalities. The Resolution on Local Self-Government of 1882 set out principles of decentralization which many believe have influenced the debate to date. The resolution recognized the twin considerations of local government: (i) administrative efficiency, and (ii) political education; and sought to promote these. However, the resolution met with resistance, and what evolved in spite of various subsequent committees such as the Royal Commission on Decentralization (1907), the Report of Montagu and Chelmsford on Constitutional Reforms (1918), and the Government of India Resolution (1918)¹⁰ etc., was a hierarchical administrative structure based on supervision and control that still pervades much of the rural space in India.

II. Post-Independence

1. The Constitution Debates

The debates in the Constituent Assembly on *Panchayati Raj* were more fundamentally grounded. There were two differing viewpoints -- that of Gandhi and of Ambedkar (see Box 2 below). The fundamental difference in philosophies of these two thinkers was on parliamentary democracy – Ambedkar believed the unit of development should be the individual while Gandhi believed the unit of development should be the village. A compromise was forged and in 1948, PRIs found place in the non-justifiable part of the Constitution: *‘The State shall take steps to organize village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government’*.

2. The Committees

The Indian Constitution did not provide guidance on how to develop the PRIs. This responsibility fell to a series of national Committees that addressed issues of implementation of the Constitutional mandate.

The first was the *Balwantrai Mehta Commission* in 1957. The committee believed that community development would only be effective when the community was involved in the planning, decision, and implementation process. The committee suggested that the basic unit of democratic decentralization was to be at the block (*samiti*) level since the area of jurisdiction of the local body should neither be too large nor too small. The block was large enough for efficiency and economy of administration, and small enough for sustaining a sense of involvement in the citizens. Further, the Zilla Parishad (ZP) should play an advisory role. The committee focused on the rural sector and recommended that the functions of PRIs should cover the development of agriculture in all its aspects, the promotion of local industries and other services such as drinking water, road building, etc.

¹⁰ See M. Venkatarangaiya and M. Pattabhiram (1967).

Box 2: Constitutional Debates

Gandhi in the issue of the Harijan of July 26, 1942:

“My idea of village *swaraj* is that it is a complete republic, independent of its neighbors for its vital wants, and yet interdependent for many others in which dependence is a necessity. Thus the village’s first concern will be to grow its own food crops and cotton for its cloth. It should have a reserve for its cattle, recreation and playground for adults and children... The village will maintain a village theatre, school and public hall. It will have its own waterworks ensuring a clean water supply. This can be done through controlled wells or tanks. Education will be compulsory up to the final basic course. As far as possible every activity will be conducted on a co-operative basis. There will be no caste, such as we have today with their graded untouchability. Non-violence with its technique of *satyagraha* and non-cooperation will be the sanction of the village community. ... The *Panchayat* of five persons annually elected by the adult villagers, male and female, possessing minimum prescribed qualifications will conduct the government of the village. These will have all the authority and jurisdiction required. Since there will be no system of punishments in the accepted sense, this *Panchayat* will be the legislature, judiciary, and executive combined to operate for its year in office. Any village can become such a republic without much interference.¹

Ambedkar’s in the Constitutional Assembly Debates in November 1948:

It is said that the new Constitution should have been drafted on the ancient Hindu model of a state and that instead of incorporating Western theories the new Constitution should have been raised and built upon village *Panchayats* and District *Panchayats*... They just want India to contain so many village governments. The love of the intellectual Indian for the village community is of course infinite if not pathetic... I hold that the village republics have been the ruination of India. I am therefore surprised that those who condemn provincialism and communalism should come forward as champions of the village. What is the village but a sink of localism, a den of ignorance, narrow-mindedness and communalism? I am glad that the Draft Constitution has discarded the village and adopted the individual as its unit.^{1”}

The PRI structure was introduced in most parts of the country as a result of the *Balwantrai Mehta* Report. However, it did not develop the requisite democratic momentum and failed to cater to the needs of rural development. Reasons for this were: (i) political and bureaucratic resistance at the state level to sharing of power and resources with the local level institutions, (ii) the takeover of these institutions by the rural elite who cornered a major share of the benefits of the various welfare schemes, (iii) the lack of capability at the local level, and (iv) the absence of political will of the grassroots leaders.¹¹

The *K.Santhanam* Committee in 1963 was appointed to look solely at the issue of PRI finances. Its recommendations have influenced the thinking and the debate to date on this issue: (i) the *Panchayats* should have special powers to levy special tax on land revenues, home tax, etc; (ii) all grants and subventions at the state level should be consolidated and untied; and (iii) a *Panchayat Raj* Finance Corporation should be set up which would look into the financial resources of PRIs at all three levels, provide loans and financial assistance to these grassroots level governments and also provide support for non-financial requirements of villages.¹²

The *Asoka Mehta* Committee was appointed in 1978 to address the weaknesses of PRIs. The committee identified the unsympathetic bureaucracy, absence of political will, lack

¹¹ See C.H. Hanumantha Rao, (1989).

¹² See A.S. Panth and O.P. Bohra. (1995), pp. 68-77.

of involvement in planning and implementation on a sizeable scale, fuzziness with respect to the role of PRIs (rural local government or a local extension of state administration?), and the domination of PRIs by elites as the key constraints in the way of PRIs. The Committee recommended the district as the administrative unit in the PRI structure, responsible for planning, coordination, and resource allocation and integrating urban and rural issues, reservations for scheduled castes (SCs) and tribals, participation of political parties in elections and financial devolution. The states of Karnataka, Andhra Pradesh and West Bengal, passed new legislation based on the Committee's Report. But 1978 onwards was an unstable period in State politics, and PRI institutions were unable to develop their own political dynamics.

The GVK Rao Committee was appointed in 1985 to again revisit the obstacles in the way of effective PRIs. It recommended that PRIs at the district level and below be assigned responsibilities for planning, monitoring and implementation of rural development programs and that the block development office should be the spinal cord of rural development.

More thinking on PRIs was initiated by the *L.M.Singhvi* Committee in 1986. *The Gram Sabha* (village assembly) was considered the base of decentralized democracy. The PRIs were to be viewed as institutions of self-government which would facilitate the participation of the people in the process of planning and development. It recommended that local self-government should be Constitutionally recognized, protected and preserved by the inclusion of a new chapter in the Constitution. It also viewed with dismay the irregularity of elections and engaged with the issue of the role of political parties in *Panchayat* elections, stating that a non-involvement should be consensual rather than through legislative fiat. The role of political parties in *Panchayats* has since then divided the advocates of PRI into two camps. On the one side are those such as Jayaprakash Narayan, writing within the Gandhian tradition of partyless democracy, who saw '*self-government through faction-fighting will not be self-government but self-ruination*', and on the other are those such as Asoka Mehta who support the involvement of political parties since it enables candidates, from weak economic backgrounds, to effectively compete with the backing of a strong organization.¹³

Constitutional status for PRIs was opposed by the *Sarkaria* Commission. But the idea gained momentum in the late 1980s especially because of the endorsement by the late Prime Minister Rajiv Gandhi who introduced the 64th Constitutional Amendment Bill in 1989. Rajiv Gandhi's commitment to the PRI route to rural development seems to have emerged through a series of workshops he had as Prime Minister with District Collectors, where he got a sense of the insensitivity of District Administration and of wastage of funds for rural development. The 64th Amendment Bill caused much anxiety among opposition parties because they perceived it to support the partisan agenda of Rajiv Gandhi and it was defeated in the Rajya Sabha.

Various other committees were instrumental for the design of rural decentralization in India, namely on decentralized planning. The Planning Commission of 1966 issued

¹³ See Wadhvani, M. and S.N. Mishra (eds.) (1996), p 2.

guidelines for district planning. The *ML Dantwala* Group of the Planning Commission issued guidelines in 1978 for block level planning. The report of the Economic Advisory Council of the Prime-Minister on 'Decentralization of Development Planning and implementation in the States' was issued in 1983, and the Working Group on District Planning of the Planning Commission issued its report in 1994. The concern with decentralized planning stemmed from *'the slow rate of benefits flowing from the infrastructure already built up, as indicated by the" slow growth of productivity, and (...) insufficient percolation of benefits to the poor and the socially disadvantaged sections, despite the proliferation of several poverty alleviation programs'.*¹⁴ Centralized planning, it was felt, had not solved the *'basic problems of poverty, unemployment and inequality'*.¹⁵

B. THE 73rd AMENDMENT

Only in 1993, with the 73rd Constitutional Amendment, were local governments in rural areas at the district, block and village levels, the PRIs, made an effective reality all over India. The 73rd Amendment is based on a political idea –decentralized democracy. In it citizen participation is seen as key in both decision making and effective service delivery. This goal of reclaiming the state by the citizen has become important at this stage of India's development, not just because the bureaucracy and political class have reduced the state to a rent-seeking state, but also because the state's delivery mechanisms are showing signs of atrophy. The Ninth Five-Year Plan (1997-2000) states: *"Past experience has shown that many development projects and programs, having laudable objectives, have failed to deliver the result because of the inadequacies of design and implementation. Time and cost overruns have become widespread and substantial in public sector infrastructure and investment projects. It is common knowledge that the benefits intended to be delivered to the people through development programs in the social sectors have not fully reached the beneficiaries because of the weakness in administrative planning and delivery mechanism"*¹⁶.

The 73rd Amendment Act was passed on December 22, 1992, on the basis of general consensus. After ratification by more than half of the State Assemblies and after obtaining the assent of the President the Act came into force on 24 April 1993.¹⁷ There are some radical features in the Act. They try to address some of the problems encountered by PRIs in previous years, by (i) granting PRIs Constitutional status, (ii) empowering socially and economically disadvantaged groups i.e., *Dalits*¹⁸, *Adivasis*¹⁹, and women, (iii) ensuring free, fair, and regular elections, (iv) keeping terms fixed, (v)

¹⁴ See C.H. Hanumantha Rao, p. 411.

¹⁵ See Mishra, B. (1997), pp.19-22.

¹⁶ Planning Commission. Ninth Five Year Plan 1997-2000, 'Development Goals, Strategy and Policies', Government of India, New Delhi, vol. 1, p214.

¹⁷ See Mahipal (1997), pp.72-79.

¹⁸ Dalits are broadly Scheduled Castes

¹⁹ Adivasi are Scheduled Tribes

identifying a list of items which would come under the jurisdiction of PRIs, and (vi) addressing the issue of PRI finance (see Box 3).^{20, 21}

Box 3: Features of the 73rd Amendment

1. The centrality of the Gram Sabha, as a deliberative and deciding body, to decentralized governance.
2. A uniform 3 tier PRI structure across the country, with the village, block, and district as the appropriate levels. States with populations of less than 20 lakhs have an option not to introduce the intermediate level.
3. Direct election to all seats for all members at all levels. In addition, the chairpersons of the village *Panchayats* may be made members of the *Panchayats* at the intermediate level and chairpersons of *Panchayats* at the intermediate level may be members at the district level: MPs, MLAs, and MLCs may also be members of *Panchayats* at the intermediate and the district levels.
4. In all the *Panchayats* seats are to be reserved for SCs and STs in proportion to their population and one third of the total seats to be reserved for women. One third of the seats reserved for SCs and STs will also be reserved for women.
5. Offices of the chairpersons of the *Panchayats* at all levels will be reserved in favor of SCs and STs in proportion to their population in the state. One-third office of chairpersons of *Panchayats* at all levels will also be reserved for women.
6. The legislature of the state is at liberty to provide reservation of seats and offices of chairpersons in *Panchayats* in favor of backward class of citizens.
7. Average *Panchayat* will have a uniform five-year term and elections to constitute new bodies will be completed before the expiry of the term. In the event of dissolution elections will be compulsorily held within six months. The reconstituted *Panchayat* will serve for the remaining period of the five-year term.
8. It will not be possible to dissolve the existing *Panchayats* by amendment of any act before the expiry of its duration.
9. A person who is disqualified under any law for elections to the legislature of the state or under any law of the state will not be entitled to become a member of a *Panchayat*.
10. An independent State Election Commission to be established for superintendence, direction, and control of the electoral process and preparation of electoral rolls.
11. Devolution of powers and responsibilities by the State in the preparation and implementation and development plans.
12. Setting up of a State Finance Commission once in five years to revise the financial position of these PRIs and to make suitable recommendations to the State on the distribution of funds among *Panchayats*.

The Adivasi Act

The Constitutional Amendment excluded the Adivasi (tribal people; except for reservations) and Scheduled Areas from the Act. However through Article 243 M (4) it kept open the possibility that Parliament may, by law, extend the provisions to these areas. The Ministry of Rural Areas set up the Bhuria Committee in 1994 to formulate a law for extending the provisions of Part IX to of the Constitution to the Scheduled Areas and to suggest modifications in other Acts relevant to the Fifth Schedule in order to strengthen institutions of local self-government in the Fifth Schedule Areas. The recommendations of 'Provision of the Panchayats (Extension to the Scheduled Areas) Act 1996 (Central Act 40) came into effect from 24 December 1996.

²⁰ Vyasulu, Vinod. (1998).

²¹ Gaiha, R. (1998; to be confirmed)

The Adivasi act is remarkable in the Indian context. It (i) recognizes that Adivasis are a vulnerable group that needs to be protected from the state in the person of the lower functionaries such as policeman, excise, forest and revenue officials who tend to act against Adivasi interest, and (ii) it endorses the communitarian nature of Adivasi life and the common ownership of property.²² Specifically it recognizes the priority of community rights, not just to the resource base in which the community is located but also over the individuals especially with respect to property.²³ With these principles in mind the Central act has placed the Gram Sabha at the center of the *Panchayat* system of self-rule for the Adivasis. Its powers and functions go much beyond the Gram Sabha in the non Scheduled Areas. The Gram Sabha in Scheduled Areas has been entrusted with : (i) preserving the tradition and custom of the people, (ii) protecting their cultural identity, (iii) safeguarding community interests in the management of community resources, (iv) ensuring the customary mode of conflict resolution; (v) being consulted in land acquisition matters for grant of prospecting license or mining lease for minor mineral in the Scheduled Area, and for grant of concession for the exploitation of minor minerals by auction.^{24,25}

3. DESIGN AT THE STATE LEVEL

State Conformity Acts

Implementation of many of the provisions of the Constitutional Amendment was left to the states, either by delegation or omission. The first task of the states was to approve the Conformity Legislation dealing with powers and functions, and procedures for local government. The Conformity Legislation (Principal Legislation) recognizes that there will be new contingencies which will have to be addressed in the future and hence it contains clauses that allow State governments to prescribe new rules without going through the legislative process. This contingency provision gives rise to a substantial body of rules (delegated legislation) which emerge through government orders and which in actual fact are the source of state control over *Panchayats*. This opening for the State governments to intervene in PRIs comes about through the language of some of the key clauses in the Conformity Acts. These clauses (Table 1) use language such as the ‘*State*

²² See Anand. S and S.Kothari (1999)

²³ The relationship between individual, community and state is seen in terms of 4 possible relationships, between (a) individual and state through the intermediary of the community, (b) individual and state sans the community, (c) individual and community, and (d) community and state. B.K.Roy Burman. (1995).

²⁴ The importance of this last provision is because ‘the formal contemporary system for resolving conflicts in the countryside –mainly courts, the police, jails, and written law- like most institutions of justice stand increasingly discredited. ... They have substantially lost legitimacy as reliable institutions for ensuring cheap quick, reliable, and transparent justice for rural people, especially those belonging to disadvantaged groups’. Mander,H and V.Naik. 1999. ‘Gram sabhas and the Delivery of Justice: Some Issues’. Paper presented at the UNDP conference July 1999, New Delhi. The authors list 5 areas for such conflict resolution (i) tribal land alienation, (ii) money-lending, (iii) personal law disputes between husband and wife, (iv) compoundable civil disputes and (v) compoundable criminal disputes.

²⁵ See Srivastava. K.B. (1999), p7-9.

may by notification’ or *‘subject to such rules as may be made under the proviso to article ... the government may alter, ...’* which allow the State to withdraw, curtail, extend, over-ride the authority of the PRI system. An observer of local government has found that States such as Andhra Pradesh and Karnataka have used the route of delegated legislation in preference to principal legislation²⁶. Concerns have been raised as to the quality of this process since important matters such as implementation, service delivery (including local capacity building) and transfer of responsibilities and powers to rural local bodies have apparently been left to the discretion of the state administration²⁷.

Nevertheless, to make the amendment effective, the states and union territories amended their respective *Panchayat* Acts by the deadline of April 1994, one year after the amendment act came into force. These provided for a uniformity in terms of three-tier local governments at the district, block and village levels: *ZPs*, *Panchayat Samitis* (PSs; also Block *Panchayat*), and *GPs* respectively.²⁸ Small states with population below 200,000 were given the option of not having the middle-level *panchayat*.

A detailed discussion of design features in the State Conformity Acts is given in Volume 3, Background Paper 1, de Souza, Peter (2000): “Multi-State Study of Panchayati Raj Legislature and Administrative Reform”. Further information on decentralization at the state-level is also included in Volume 2: “Approaches to Rural Decentralization in Seven States”.

State Finance Commissions (SFCs)

The other important aspect of implementation by states is on fiscal matters. The Governor of each State is required to set-up a SFC within one year from the date of commencement of the 73rd Amendment Act, 1992 and subsequently at the culmination of every five year period²⁹. The objective of this exercise is to examine the financial position of the *panchayats* under the Constitution of India Article 243-I. The amendment also broadened the terms of reference of the CFC to recommend measures for augmenting the Consolidated Fund of states in order to supplement the resources of local bodies in the state on the basis of recommendations of the SFCs.

²⁶ See fn 47.

²⁷ See, among others, Gulati (1996), Mathur (1999) and Rani (1999).

²⁸ Although these bodies are named differently in different states, for ease of reference we shall in general refer to the local government at village level as GP, at the block level as SP and at the district level as ZP. We also use the term ‘panchayat’ to refer to all the three levels of rural government together, unless otherwise specified.

²⁹ The State Governor in India is appointed by the President, making SFCs somewhat independent of state governments, although in practice they can exert substantial influence over nominations for the SFC. In any case SFC recommendations are not mandatory and require approval by state legislature.

Table 1: Provisions for control of PRI by state governments

No	State powers	A.P	Karna- taka	Kerala	M.P	Uttar Pradesh	West Bengal
1	State govts powers to make rules and to make changes in content of schedule	X	X	X	X	X	X
2	Delimitation resp of govt not SEC	-	-	X	X	X	-
3	State governments power to appoint officials	X	X	-	X	-	X
4	State Govts manage PRI affairs when delay in elections	-	-	X	-	-	-
5	State Govts powers to dismiss sarpanch etc	X	X	X	X	X	X
6	State govts to cancel resolution or decision of <i>Panchayats</i>	X	-	X	X	--	-
7	State govts power to dissolve <i>Panchayats</i>	X	X	X	X	X	X
8	State govts power to inspect records/works	-	X	X	X	X	X
9	Finance Commission report recommendatory not mandatory	X	X	X	-	X	X

Source: Own analysis.

Most states constituted SFCs, which submitted their reports in less than 2 to almost 4 years. Terms of Reference of the SFCs are common across all the states (Box 4). The SFCs are required to recommend financial support from the state and principles for determination of taxes, tolls and fees that could be assigned to or appropriated by the local bodies. Once the revenue sharing arrangement is designed, the SFC is required to recommend the allocation of the sharable revenue among different local bodies, both urban and rural. On the whole, there is no common approach followed by all the SFCs except that most chose to stick to the existing tax powers of local governments and suggested transfer of funds accordingly.

In the absence of clear transfer of functions, all SFCs faced the problem of assessing the resource requirement of the local bodies. SFCs in different states followed different ways of determining the resource requirements of PRIs. They unanimously and strongly recommended that whenever state governments decide to devolve any of the functions of Schedule XI to PRIs, they must also devolve finances along with the functionaries and empower them to discharge the responsibility effectively. The problem common to some states (for example, Andhra Pradesh (AP), Karnataka, MP and Rajasthan) is that many *panchayats* especially *GPs* do not impose and collect taxes that they are authorized to because such options are perceived to be unpopular with their constituents. Accordingly, SFCs in AP and Rajasthan did not recommend assignment of taxes levied by the state government to local bodies, as they are thought to be unfavorable to voters. The Rajasthan SFC suggested that this problem can be tackled and it would more acceptable if only the rich villagers were taxed through, e.g., a tax on *pucca* (brick/ stone) houses and big *havelis* (mansions). Another problem faced by PRIs is the lack of administrative

machinery and staff trained in tax collection. Finally, the tax bases of available taxes are too low to generate sufficient revenue. Table 2 presents the taxes and subjects that were transferred to local bodies subsequent to the recommendations of the SFC.

Box 4: Terms of Reference of the SFCs relating to PRIs

(a) To review the financial position of the Panchayats, and to make recommendations about the principles governing:

- the distribution between the State and the *Panchayats* of the net proceeds of the taxes, duties, tolls and fees leviable by the state;
- the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Panchayats;
- the grant-in-aid to the Panchayats from the Consolidated Fund of the state;

(b) To review the measures needed to improve the financial position of the Panchayats.

Revenue Sources of PRIs

- own tax revenue from taxes assigned to and collected by local bodies
- taxes assigned to local bodies, collected by the state government and given entirely to local bodies
- shared taxes, assigned to and collected by the state government and a share of proceeds passed onto local bodies
- non-tax revenue, e.g., income from properties, fees, receipts etc.
- compensation and grants-in-aid from the state government
- loans from state government or financial institutions, and
- grants from state and central government, tied to special schemes

As the reports of the SFCs were delayed, the 10th Central Finance Commission (CFC) made an ad-hoc provision of Rs.4381 crores (US\$ 10 billion) for *panchayats*, equally distributed during 1996-97 – 1999-2000. This was based on the 1971 rural population of 4381 lakhs (438.1 million) with a per capita provision of Rs.100 (US\$2.25). These grants intended to be matching grants “*requiring suitable matching contributions by raising resources*” and were not meant for salaries and wages. For the next five years beginning 2000, the 11th Finance Commission will recommend measures to augment the consolidated funds of the State governments in order to supplement the resources of the *panchayats*.

SFCs in some states did not assign any tax from the state level to the local bodies. Instead, they were in favor of PRIs being given higher percentage of the state’s taxes shared between state and local bodies. Then based on certain criteria these SFCs decided on the total devolution to be divided between PRIs and municipalities. In developing their formulae for transfers to lower-level governments, the SFCs were guided by various existing methods. The Gadgil formula used for transferring central plan assistance to states gives a weight of 60% to population, 25% to per-capita income, 7.5% to fiscal management and achievement of national objectives, and the remaining 7.5% to special problems of states. Allocation of Jawahar Rozgar Yojana (JRY) funds from the center to the states is based on their rural poor population relative to that of the country. Within a state, further allocation is based on an index of backwardness of the districts. This index gives equal weight to the relative SC/ST population in the district (compared to the state)

on the one hand and the inverse of per-capita production of agricultural workers on the other.

Table 2: Recommendations of (First) State Finance Commissions for additional powers and responsibilities of PRIs

State	New Taxes	New functions/ responsibilities	Remarks
AP	Introduction of a new advertisement tax Compulsory levy of water tax General revision of taxes once in three years to reflect price rise Computerization/ social audit of local bodies	Agriculture, animal husbandry, rural water supply, minor irrigation tanks, social and farm forestry, small scale industries and food processing, khadi & village industries, fuel & fodder, roads, culverts, bridges, ferries and water ways, non-conventional energy, technical training and vocational education, adult & non-formal education, libraries, cultural activities, market fairs, maintenance of community assets	New taxes accepted. These functions constitute 16 out of 29 Schedule XI subjects that are now transferred to Panchayats.
Karnataka	Replacement of the present system of sharing a portion of the state government tax revenue by a share in the total non-loan gross own revenue receipts of the state government (to avoid any adverse financial impact on PRIs of tax concessions/ incentives given by the state government to achieve its non-revenue objective)	All individual beneficiary oriented schemes that come under both state sector and centrally sponsored sectors to be entrusted to GPs for implementation. Street lights to be implemented directly by GPs, rural water supply, primary health and primary education by ZPs and up-gradation of rural roads by PSs. GPs to be entrusted with repair and maintenance of water supply system, street lights and intra-village roads. Provision of safe drinking water, street lights, roads, primary education and primary health care to be upgraded and equalized based on norms, over the 5-year period: 1996-97 to 2000-2001.	
Kerala		Activities projects and institutions coming under both plan and non-plan categories	
MP		Obligatory functions entrusted only to GPs Obligatory functions include services like public safety, services related to public health, and public works. No obligatory responsibilities to PSs or ZPs	
Maha-rashtra			
Rajasthan	A fee for licensing melas Levy of a surcharge up to 5% on sale of property in rural areas and a 0.5% surcharge on market fee 10% nominal tax could be imposed by all PSs in the state Imposition of land revenue on barani land to ZP and income from this revenue to be shared by PRIs: 60% GPs, 25% PSs and 15% ZPs.		Most taxes relate to ZPs
UP	Not in favor of fresh assignment of any tax or non-tax revenue from the state list to the local bodies.	No new responsibilities	

Table 3: Weights in Formulae for Devolution recommended by SFCs

Indicator	State				
	Karnataka	Kerala	MP	Rajasthan	UP
Population	33.33	75	75	40	80
Area	33.33		25		20
Poverty				50	
Illiteracy rate	11.11				
Population of SC/ST		5			
Population of non-Desert Development Program (DDP)/ non-Drought Prone Area Program (DPAP)/ non-Tribal Area Development (TAD) blocks				10	
Persons per bed in govt. hospitals	11.11				
Road length/ sq. km	11.12				
Financial need		15			
Tax effort		5			
Total	100	100	100	100	100

Source: Reports of the (First) State Finance Commissions

The general problem faced by SFCs in directly adopting one of these formulae is that per capita incomes for regions smaller than districts is not available. A similar problem arises with respect to the per capita production of agricultural workers and the poor population. Thus, different SFCs devised different methods for devolution of plan funds to local bodies. Table 3 presents the formula/ criteria adopted by the SFCs, while Table 4 gives the final distribution between urban and rural local governments. Where available, the tables also include the pre-SFC break-up of devolution between these bodies. In general the share of rural governments in these devolution is very high except in UP.³⁰

A detailed discussion of SFC reports is included in Volume 3, in Background Paper 2 by Shikha Jha: “Fiscal Decentralization in India: Strengths, Limitations and Prospects for Panchayati Raj Institutions”.

³⁰ The weights in the formulae presented in Table 7 are used as follows. If a certain indicator, say population, is assigned a weight of α then this means that $\alpha\%$ of devolved funds are distributed in proportion to the distribution of that indicator, i.e., in this case in proportion to the population of different regions. In general, the developed formulae are used for distribution of shared tax revenues and general-purpose grants or other grants that are not earmarked.

Table 4: Relative shares of local governments in state devolution (%)

State	Applicable	Urban	Rural			
			Total	ZP	PS	GP
AP	on SFC recommendation	16	84	57		43
	Before SFC (1994-95)	6	94			
Karnataka	on SFC recommendation	15	85	40	35	25
	Before SFC (1995-96)	8	92			
Kerala	on SFC recommendation	14	86			
	Before SFC					
MP	on SFC recommendation					
	Before SFC					
Rajasthan	on SFC recommendation	23	77			
	Before SFC					
UP	on SFC recommendation	70	30	20		80
	Before SFC					
Maharashtra	on SFC recommendation	NA				
	Before SFC					

Source: Reports of the (First) State Finance Commissions

Table 5: Decentralization Indicators: Administrative, Political, and Fiscal

Indicators	Macro (National)	Sector
Political Decentralization	<ul style="list-style-type: none"> Elected intermediate and local governments Multi-party national, intermediate, and local government elections Secret ballot in national, intermediate, and local elections Elections held at regular intervals Elections free and fair Impartiality of the Judiciary Independence of Central Bank 	<ul style="list-style-type: none"> Importance of elected bodies in sector policy formulation Importance of elected bodies in decisions about levels of sector funding Importance of elected bodies in sector service delivery
Administrative Decentralization	<ul style="list-style-type: none"> Location of smallest management unit for sector service delivery Level of government responsible for conditions of service of civil servants in the smallest management unit 	<ul style="list-style-type: none"> Location of smallest management unit for rural sector service delivery Level of government responsible for conditions of service of civil servants in the smallest management unit
Fiscal Decentralization	<ul style="list-style-type: none"> Share of revenues retained and internally generated by intermediate governments Share of revenues retained and internally generated by local governments Share of aggregate public expenditures over which intermediate governments have effective control Share of aggregate public expenditures over which local governments have effective control. 	<ul style="list-style-type: none"> Level of government that pays salaries of staff of smallest unit Share of sector expenditures of smallest administrative unit derived from budgets of local governments Share of sector expenditures of smallest unit which is derived from user charges and other beneficiary cost recovery schemes. Level of government that determines the budget of the smallest sector unit

Source: World Bank, Decentralization Assessment Module, Rural Development Dept

4. IMPLEMENTATION AT THE STATE LEVEL

The preceding section outlined the design and actions taken in relation to rural decentralization at the national and state levels. This section summarizes data from across all seven states studied and draws out key issues. The objective was to contrast the center and state visions with the reality on ground. To identify which kinds of decisions were effectively being made by PRIs. The states are AP, Karnataka, Kerala, Maharashtra, MP, Rajasthan, and UP. The summary of formal rules, procedures and financing presented here is complemented in the subsequent section (5) by analysis of how effective – even at current levels of application – these actions have been in terms of empowering citizens to participate equally in the development and administration of their local areas.

The enquiry was structured around issues on political, administrative and fiscal decentralizations. The Section is based on field interviews carried out by a study team in all the seven states. A large amount of information was collected. This information is discussed in detail in Volume 2 of the Overview: “Approaches Rural Decentralization in Seven States”. Only key conclusions are presented here. This section also shows results from a field investigation of participation carried out in 53 villages in MP and Rajasthan. The results of this empirical study are presented in detail in Volume 3 in Background Paper 3 by Alsop, R., A. Krishna and D. Sjoblam (2000) “Are Gram Panchayats Inclusive?”. Finally details on fiscal decentralization, which is only summarized here, are given also in Volume 3 in Background Paper 2, by Shikha Jha, “Fiscal Decentralization in India: Strengths, Limitations and Prospects for Panchayati Raj Institutions”. The discussions in this section also make use of comparisons between the seven states and 20 countries or states in other federations. The methodology used was developed as part of the Decentralization Fiscal Systems and Rural Development Research Program of the Rural Development department of the World Bank. The same methodology was used with respect to the Indian states in order to ensure comparability with the analysis carried previously for the other countries. A number of indicators were used to measure political, administrative and fiscal decentralization. These were measured based on questionnaires, both for the national or state (macro indicators), and for specific sectors (sectoral indicators). Table 6 summarizes definitions and identifies the indicators used in this enquiry of the extent of States’ decentralization efforts.

Four broad standards of decentralization were applied to evaluate the extent to which the seven state governments studied had formally devolved responsibilities to PRIs: self-government, significant decentralization, modest decentralization, and minimal decentralization. It was found that none had created self-governing PRIs consistent with the intent and spirit of the 73rd and 74th Constitutional Amendments. Kerala achieved significant decentralization: Maharashtra had implemented modest decentralization. The remaining states --AP, MP, UP, Karnataka, and Rajasthan had in fact implemented only minimal decentralization.

Table 6: Decentralization Dimension

DEFINING THE DIMENSIONS OF DECENTRALIZATION		
Decentralization Dimension	Definition	Decentralization Dimension In The Context of Rural India
Political Decentralization	Transfers policy and legislative powers from central governments to autonomous, subnational assemblies and local councils that have been democratically elected by their respective subnational constituencies.	<ul style="list-style-type: none"> • Have district, block and village panchayats been elected under a democratic, constituency-based, free and fair electoral process? • Are panchayats constitutionally recognized as levels of government? • Do they have a clearly assigned roles and functions vis à vis other levels? • Can panchayats set policy within their jurisdictions—do their resolutions have legal weight?
Administrative Decentralization	Places planning and implementation responsibilities in the hands of locally situated civil servants. It takes three main forms, deconcentration, delegation, and devolution ³¹ : (1) Deconcentration disperses staff of higher level governments into local areas by establishing field offices. (2) Devolution, the strongest form of administrative decentralization, places local staff under the jurisdiction of elected local governments. (3) in delegation ³² , administrative powers and responsibilities for public services are transferred to semi-autonomous bodies—which are ultimately accountable to the tier that delegated the powers.	<ul style="list-style-type: none"> • How many major functions have been formally devolved to PRIs? • Do civil servants and technical/ancillary staff working within the districts, blocks, and villages report to panchayats at their respective levels? • Do panchayats have administrative or technical control over programs administered locally? • Can panchayats hire, fire, discipline, promote, or transfer technical or non-technical staff without first receiving permission from an outside (usually higher) authority? (especially class 1 and 2 officers). • Do panchayats have their own technical staff? • Do panchayats write or provide substantive input into the Annual Confidential Reports (ACRs) of technical staff working within the PRIs areas?
Fiscal Decentralization	Accords substantial budget autonomy to intermediate and local governments. This autonomy includes the means to generate substantial revenues internally, and effective control of expenditures made with these revenues and with transfers from higher-level subnational governments and central government.	<ul style="list-style-type: none"> • What is the degree of revenue autonomy of panchayats—can they raise their own tax and non-tax revenues? • How dependent are PRIs on fiscal transfers from state governments? • How much discretion do PRIs have in expenditures—from own revenues as well as from transfers? • What share of transfers from higher levels are block or specific purpose grants? • Are PRIs authorized to raise funds from other sources such as Banks? • Do PRIs pay the salaries of local staff? • Is there a clear, transparent intergovernmental fiscal formula for transfers to each PRI level? • What share of the plan and non-plan budgets has been devolved to PRIs?

³¹ Dennis Rondinelli (1989)

³² In Latin America “delegation” is used differently and means deconcentrated unit of higher government.

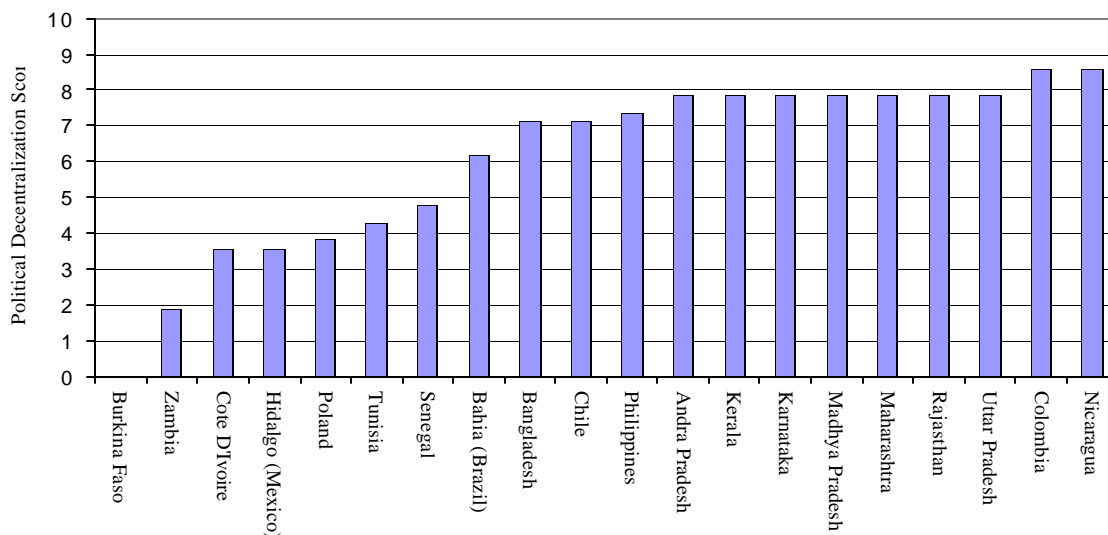
Issues in Political Decentralization

I. India is one of the most politically decentralized countries.

States have success fully implemented the mandatory provisions of the 73rd Amendment.

Part of the reason for this success is that the constitutional amendment, while weak in other areas, clearly stipulated the obligations of state governments with regards to political decentralization. The objective was to enshrine the third tier, such that they could no longer be created and disbanded at will by the states, and a common three-tier structure would exist in all states. As would be expected, all seven Indian states are exactly at the same level of political decentralization having all elected the PRIs following the same constitutional procedures. In all these states, state governments had held at least one round of PRI elections. In every case, representatives to each tier, the ZP, *PS*, and the *GPs* had been democratically elected.

Figure 1: Political Decentralization in India in an International Comparison



However, the quality of the local political institutions varies across the states. The precise roles of PRIs, the level of legitimacy accorded them by the state, and credibility of these institutions in the eyes of the constituents varies from state to state. Importance of PRIs as political institutions, especially at the district level was the highest for Kerala and Maharashtra. Maharashtra had experimented with decentralization to PRIs and had a well established *Panchayat* Act. The constitutional amendment helped them strengthen their own mandate. PRIs were actually making real decisions with respect to project and scheme implementation. In Kerala, the decentralization process got a boost by the People's Plan Campaign championed by the state government. High levels of literacy have also helped. Kerala was the only state in which there appeared to be clear lines of responsibility between the Collector and the ZP

President, and where the CEO of the ZP was answerable to the ZP President. Elsewhere, the political influence of the PRIs is still evolving. Real political powers continue to be vested with the MPs, MLAs, and even senior district and block level bureaucrats. In the table below, findings on the states political decentralization are summarized according to two classifications: political representation, which is political decentralization in the formal sense, and political accountability. The table illustrates that while there were important advances on political representation, political accountability, particularly at GP level, is still lacking.

II. Participation of rural population in the local election process is high, but there is lack of interest and exclusion.

People participate in the political process but show low levels of interest in the *panchayat* as an instrument of democracy and development. Participation in political activities related to GPs – campaigning, contacting, and attending rallies and meetings – is substantially lower (11 to 40 percent) than participation in voting (91 to 93 percent). Villagers voted in *panchayat* elections, but high turnouts were not indicative of an overwhelming interest in the democratic processes of local government. Social solidarity, avoidance of tension within the village, bribery, fear of exclusion from below poverty line lists, and often simply the excitement of participating in the festival of elections are factors that influence people’s decisions to vote. People’s choice of candidate was based on even more complex concerns. These took into account both personal attributes: education, trustworthiness, age, gender and broader considerations such as the candidates household’s overall economic and social position, economic relations between the candidates household and the voters household; the strength of the candidates households patronage relations; bribes paid. While elections do occur and while people do vote, the reasons for doing so are multiple – candidate competence is an important consideration, but it is certainly not the only (and often not even the most critical) consideration. Villagers appear at present more concerned with consolidating existing economic and social relations rather than using the democratic process to change inequitable rural societies. GPs are seen as “political” bodies, i.e., as organizations dealing with power, not with development.

People perceive little benefit from GPs. Discussion with villagers indicated very little interest in, and a high level of disillusionment with the promises made following the 73rd Amendment that envisioned the GP becoming an instrument of local governance and participatory development. GPs were not valued as an organization as they brought very few benefits to villagers. People felt they had little influence in decisions made over the few benefits the GP did control.

Table 7: Political Decentralization Across the Seven States

Indicator	Andhra Pradesh	Karnataka	Kerala	Maha-rashtra	Madhya Pradesh	Rajasthan	Uttar Pradesh
POLITICAL REPRESENTATION							
PRI's Constitutionally recognized as 3 rd tier of govt	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ZP elections held every 5 years	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MP elections held every 5 years	Yes	Yes	Yes	Yes	Yes	Yes	Yes
GP elections held every 5 years	Yes	Yes	Yes	Yes	Yes	Yes	Yes
PRI elections free and fair	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Independent State Elections Commission	Yes	Yes	Yes	Yes	Yes	Yes	Yes
1/3 reservation for women	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Population-based reservation for SCs/STs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
PRI's have legislative powers	No	No	No	No	No	No	No
PRI's have political control over some important sectors	No	No	No	No	No	No	No
POLITICAL ACCOUNTABILITY							
ZP President and VP Directly Elected?	No	No	No	No	No	No	No
ZP President Accountable to ZP	Not Clear	Not Clear		Yes	Not Clear	Not Clear	Yes
PS President and VP Directly elected?	No	No	No	No	No	No	No
PS President Accountable to PS	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sarpanch and Upa-Sarpanch Directly Elected?	Sarpanch	No	Sarpanch	No	Sarpanch	Sarpanch	Pradhan
Sarpanch/Pradhan accountable to GP	Varies	Varies	Varies	Varies	Generally No	Varies	Varies
GP accountable to Gram Sabha	Usually not	Usually not	Generally	Usually not	Usually not	Usually Not	Usually Not

Source: Own Analysis based on field investigations and Various State PRI Acts

Reservations alone may have only limited effects on inclusion. The 73rd Amendment mandated that seats be reserved for SC, STs, and women as a means of partially correcting long-standing, social inequalities. A minimum of 1/3 of all seats in local bodies are to be reserved for women. Seats are to be reserved for SC/STs in proportion to their population in each constituency—one third of these must be reserved for women. Most states have also included reservations for Other Backward Castes (OBCs) based on population. All seats including *Sarpanch*, *PS* and *ZP* Presidents are reserved for one term, on a rotating basis. The study data from MP and Rajasthan demonstrate that, for the study villages, levels of inclusion in activities associated with PRIs are not higher for women, backward caste or tribal people when a position is reserved for that category of person.

III. Accountability mechanisms are not working.

People do not participate in the most visible accountability mechanism, the Gram Sabha. Just under 7 percent of respondents attended a *gram sabha* with any regularity. The *Gram Sabha* (or general assembly of the village *panchayat*) is the mechanism of accountability which most people are aware of and the forum at which accounts should be presented and discussion of resource allocation held. This finding is reinforced by that of the study team covering seven states. Across all seven they found that most meetings were poorly publicized, scheme-bound, and attended only by potential beneficiaries. They also found that the required number of meetings were not held, meetings were sometimes fabricated by *Sarpanches* and in some cases, neither the *Sarpanch* nor *Panches*, were willing to convene meetings. As a result, GSs neither function as an accountability mechanism or present the opportunity for social audit.

Other mechanisms of accountability do not work. Among the 25 villages studied intensively in MP and Rajasthan, only one vigilance committee was in evidence and this had been co-opted by vested interest groups; despite high levels of dissatisfaction there was only a single effort made to recall a *sarpanch* and this was subverted; and, in only one case did villagers recourse to higher authorities have any effect – and this for only a short period of time. The evidence is such that it bears out villagers lack of faith that the new rules of accountability are robust enough to withstand the exclusive modes of behavior of traditional to the elite groups holding power in both elected and administrative government or the judiciary.

Formal rules do not make local bureaucrats accountable to elected representatives and there is diminishing local control. International good practice in government structures at all levels places the senior most civil servant accountable to the senior most politician of the level. The Government of MP characterized the relationship between the ZP CEO and ZP President as similar to the relationship between the Chief Minister and the Chief Secretary of the State. However this was not the relationship observed in the field. The ZP CEO is accountable to the Collector, not to the ZP Chairperson. The situation was similar in AP, UP, Rajasthan, Maharashtra and Karnataka. In Kerala the situation was different. The ZP President was fully in charge, but, as a result, the government of Kerala had a lot of difficulty keeping the slots filled with Indian Administrative Service (IAS) officers.

The presence of MLAs and MPs as members of ZPs and PSs overwhelms panchayats. Domination of local political bodies by higher level politicians has emerged as a threat to local decision-making. As provided for by the 73rd Amendment, and in all 7 states except Kerala and

Maharashtra, MLAs, MLCs, and MPs whose constituencies fall within the various blocks and districts are members of *ZPs* and *PSs*³³. In all states studied they are permanent invitees or ex-officio members without voting powers, and are authorized to send representatives on their behalves. Kerala totally excluded MLAs, MLCs, and MPs from PRIs in an amendment to the Kerala *Panchayat* Act of 1994. In UP, MLAs and MPs have voting rights except for election of office-bearers and no-confidence motions. States justify the inclusion of MLAs, MLCs, and MPs in *ZPs*, *PSs*, and *DPCs* as important, since these legislators are representatives of local jurisdictions at higher levels and so need to be a part of the local decision-making processes in order to effectively represent local interests in the state and union assemblies. However they seem to overwhelm local decision-making.

Direct Election of *Sarpanches* Marginalizes Other Members of the *GPs*. The constitutional amendments provide for directly elected members to all seats at all levels. Most have directly elected *panches* on a ward basis and also directly elected the GP President—*Sarpanch*. In most, the Upa *Sarpanch* or Vice President of the GP is indirectly elected from among the *panches*. Direct election of *Sarpanches* has placed them above the *panches* rather than in a coordinating role. In AP, MP, and most other states visited, *Sarpanches* were accused of acting arbitrarily, not consulting the rest of the GP systematically. The common view of *Sarpanches*, apparently reconciled to by the *panches*, was that *Sarpanches* were above *panches* since they had been elected by the entire GP constituency rather than only a subset—ward—as in the case of the *panches*. The freedom to act arbitrarily appears to have increased the avenues for corruption among *Sarpanches*, and for other forms of unilateral action. This has contributed to a breakdown in the accountability mechanisms and quality of decision making in many GPs.

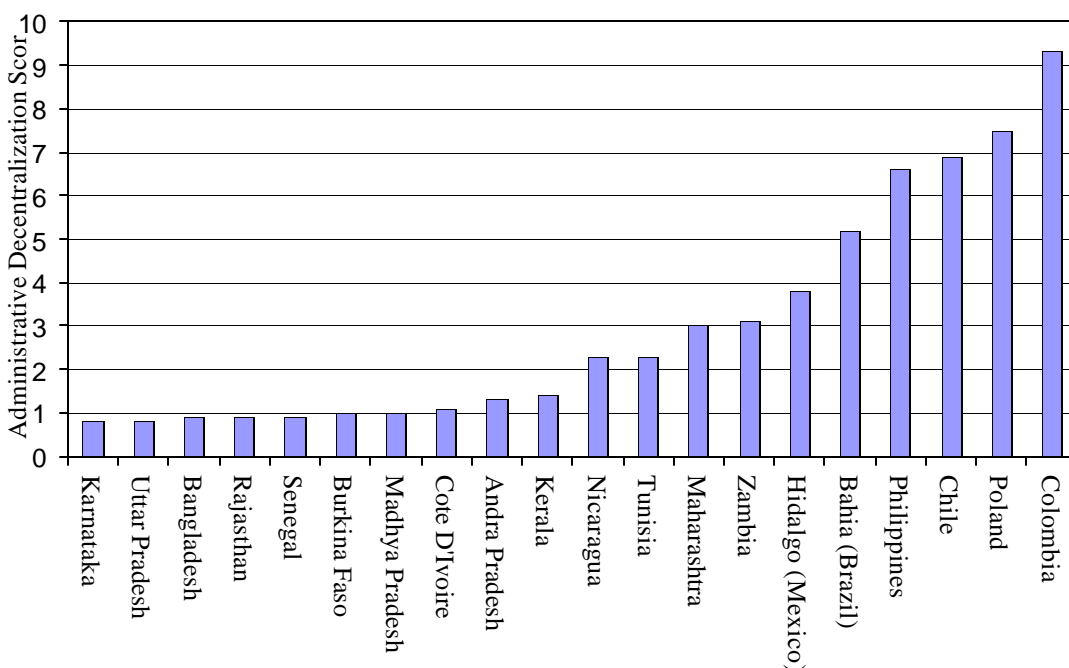
Issues in Administrative Decentralization

Administrative decentralization is weak. Indian states are among the worst performers in administrative decentralization when compared with other countries. In India local decision-making remains in the hands of the state bureaucracy. On administrative decentralization the best performer is Maharashtra followed by Kerala. Maharashtra has devolved control over some staff in some sectors to the district panchayats—primary education, primary health. In Kerala there is a dual control mechanism where sector staff report to both levels. In the other five states PRIs have virtually no control over civil servants.

³³

MLAs and MLCs only are members in the Block Panchayats in Karnataka, MPs as well in ZP.

Figure 2: Administrative Decentralization in India in an International Comparison



State Panchayat Acts and subsequent secondary legislation have defined roles of PRIs. But functions specified for PRIs under the State Panchayat Acts and subsequent legislation have not been meaningfully transferred. Roles of local government have been defined, but the criteria for assigning roles to PRIs and within PRIs to different levels does not seem to be anchored on international experience, or analytical work related to the efficiency of service delivery and capacity to mobilize local resources. However, aware of the need to decentralize, most states have implemented a number of cosmetic and close to meaningless changes. The least significant functions seem to have been transferred raising questions on the viability of local governments as useful instruments of service delivery in rural areas. DRDA Directors are now called CEOs of the ZPs and now interact much more with the ZPs with regards to beneficiary selection for schemes. However, their roles and authority remain unchanged. Similarly the Block Development Officer has been renamed Executive Officer (EO) of the *Panchayat Samiti*. Sector technical staff continue to report to their old bosses. Overall State Governments continue to control most functions that were legally transferred to local bodies.

Most state governments have designed block *Panchayats* (*Panchayat Samitis*) to be weak.

The *Panchayat Samitis* is a rather unpopular level of local government with all states except Rajasthan. The Government of Kerala openly admits that it does not like the level. It feels obligated to have it by the 73rd Amendment but has no plans to give these *Panchayats* substantial powers. In MP, the *Janpad* is treated as a post office. Its role is not significant, even in beneficiary selection of schemes – where it simply aggregates GP submissions and submits them to the ZP for consideration. However, the *Janpad* is empowered to employ village school

teachers under the Education Guarantee Scheme (EGS), and supervise their functioning as well as that of health workers (low-level functionaries *anganwadies*, not gazetted staff).

District Planning Committees (DPCs) are dominated by state civil servants and politicians—Ministers, MLAs and MPs, not *panchayats*. Most states have set up DPCs, constitutionally mandated bodies that operate at the district level or slightly above. The composition of the DPC and responsibilities do not vary greatly across states. The precise mandate of these bodies is often not clear beyond integrating district level urban and rural development plans. In the six states MLAs/MLCs and MPs are voting members of DPCs (exception is Kerala). The Collector or CEO ZP is the member secretary with voting powers. In Kerala the DPC is chaired by the ZP President but its functions are unclear and there is a parallel District Development Council of which the state politicians are members. The ZP President is chairman in Rajasthan and Karnataka while in Maharashtra and UP Ministers of State Government chair the DPC.

Box 5: The District Planning Committee in MP

A much observed innovation in decentralization in MP was the creation of the District Planning Committee (DPC, also called Zilla Sarkar) established April 1, 1999. In the MP experiment, the DPC is chaired by a Minister of State, usually 2-3 districts per Minister. The Collector is Member Secretary and was made Deputy Secretary to Government of Madhya Pradesh (GOMP) in order to provide bureaucratic sanction up to 50 lakhs. The DPC does not have its own funds, only power to approve projects between 15 to 50 lakhs. (ZP can approve projects up to 15 lakhs). GOMP explains that only a Minister of State can approve projects up to 50 lakhs without an audit objection being raised. Hence Minister of State as Chairman and Collector as Member Secretary. GOMP sees the additional benefit of this current composition of the DPC as bringing government closer to the people, making it more accountable. The collectors of the 2 districts visited corroborated this view by highlighting the increased flexibility and powers they had to respond to concerns, requests, and petitions from citizens within their districts.

However, PRI representatives of all three levels with whom discussions were held in the two districts complained bitterly that in their view the DPC had usurped the powers of the ZP and made a complete mockery of the decentralization process. They argued that prior to the constitution of the DPC their role was already quite restricted but has become much more so. On request from district officials they would convene GSs and *panchayat* meetings to selecting beneficiaries available schemes. They assert that now, the DPC takes a final decision on who in each GP benefits from schemes. More specifically the Minister, Collector, MPs and MLAs make arbitrary decisions based on local political considerations. PRI members offered as written evidence examples of schemes for which they had selected beneficiaries per scheme rules and the PRI Act. They noted that GPs which were crossed-out in the final allocation by the DPC were small and politically insignificant. None of the poor in those GPs would get benefits.

The District Rural Development Agency (DRDA) remains a centralizing force. According to all seven state governments the DRDA, through which centrally and state sponsored schemes are channeled, has been integrated into/placed under the jurisdiction of the ZP. The Government of Karnataka went so far as to officially abolish it. Kerala has abolished it at the district level. However the reality in all states is much different. Nowhere has the DRDA been abolished in practice. In most cases, the former DRDA Director has been made CEO of the Zilla (e.g. MP), and has retained control over the funds even where the ZP President has been made Chairman of the DRDA. In Maharashtra, the CEO ZP is Chairman of the DRDA, and is assisted by a Deputy

CEO and five Assistant Project Officers. The collector is not involved. In Rajasthan, the ZP President has been made Chairman of the DRDA but the powers of the body have been vested in a new position of Executive Director which is held by the Collector. An Additional Collector (Project Director DRDA) runs the day to day operations of the DRDA. The Project Director has an additional charge as CEO of the Zilla. The DRDA can choose any implementing mechanism for its schemes and the PRIs have become an additional option. In UP the Collector heads the DRDA. In MP the ZP CEO is the former DRDA Director and continues to act in that capacity along with his additional functions as ZP CEO. In Kerala, the abolished DRDA continues to exist “in order to clear assets and liabilities.” The Collector continues as chairperson for this purpose. The state is trying to figure out how the body is to be abolished in practice. One view is to make it a poverty alleviation cell of the ZP with a Project Director that reports directly to the ZP President. Meanwhile the institution thrives at the block level in all states, under the management of the Block Development Officer (BDO) who also serves as Secretary to the Block *Panchayat*.

Sectoral Decentralization, despite claims by the State Governments is weak. Sectoral decentralization refers to the devolution of decision making in specific sectors. In this study, five major sectors were investigated – Primary Education, Health, Rural Roads, Water Supply, and Agriculture Extension. The study found there is little evidence of decentralized management in any of the five sectors--budgets, reporting lines of authority, technical sanction, etc. Gazetted staff are under the direct control of the state administrative hierarchy, not PRIs. This is the case in all seven states. There are schemes though in each of these sectors, parts of which are implemented with some involvement of the PRIs. Each state has adopted a somewhat different strategy to sort out this relationship. In Kerala, gazetted staff are partially under the control of local PRIs through a dual control mechanism. In blocks and districts, officers of class 1 to 4 are supposed to report administratively to the panchayats (through the CEO of the level) and technically to their respective line departments at the district and state level. However, the results of the dual control mechanism have been mixed. In Maharashtra staff of 29 departments have been transferred from line departments to the ZP. All of these staff consider themselves to be state civil servants on deputation to the ZP. State government pays salaries and they report to line departments on technical matters. The CEO writes the Annual Confidential Report (ACRs)³⁴, and the Collector can call for records and review the work of local bodies. Line department expenditures and programs constitute the bulk of sector expenditures, with PRIs accounting for very little.

Centrally and State Sponsored Schemes are not devolved to PRIs either, but are flowing through DRDAs as before. These schemes are over 250 in number³⁵. Most scheme funds are so closely tied that there is no local discretion. The role of PRIs in most Schemes is to select

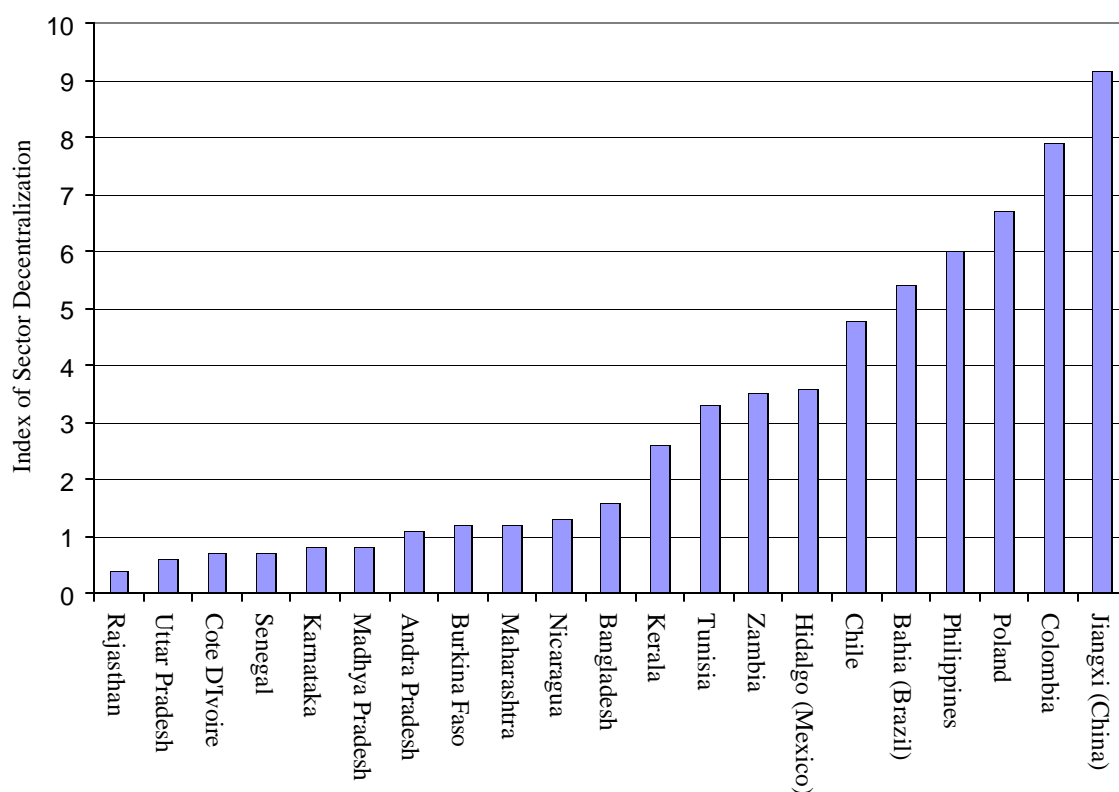
³⁴ The exception is UP where ZP and PS Presidents write a comment in the ACR which must included by the Collector unchanged. In Kerala, block and district Presidents are authorized to write ACRs, and they are aware of this but none appears to have seen an ACR, even less written one. In other states the issue has not been dealt with formally and no partial provision has been made as in UP.

³⁵ The precise number is unknown as some are launched and others discontinued every year. In addition, state governments initiate their own schemes and/or add-on supplementary schemes to CSS—funded by the National Planning Commission

beneficiaries and pass the lists to state civil servants in the districts. There is no local choice or flexibility to integrate schemes into local development plans³⁶.

Little decentralization has happened in five key sectors. The sector decentralization index is based on a set of questions which are designed to reveal who makes real decisions in 5 key sectors: primary education, primary healthcare, rural roads maintenance, rural water supply, and agriculture extension. The data shows that the Indian states perform poorly (Figure 3). Rajasthan has the lowest level of sectoral decentralization while Kerala has performed the best. The latter and Maharashtra were the only two states in which PRIs had influence on the 5 sectors. In high scorers such as the Philippines, China, Poland, Brazil, and Colombia many of these sectors were effectively devolved to local governments.

Figure 3: Sectoral Decentralization in India in an International Comparison



Lagging administrative decentralization limits the capacity of PRIs. In all states, civil servants have retained effective control over the implementation of almost all government functions and schemes and remain independent of, and are not accountable to, elected local

³⁶ Kerala is the notable exception where all the CSS funds are aggregated with the state's own grants-in-aid and 35% of it is transferred to the PRIs. There is only broad earmarking of these funds in Kerala, and the rules are not nearly as restricting as in normal scheme rules. (Minimum 40% on productive activities, maximum 30% on roads and other infrastructure, complete discretion on 20% of this grant).

governments. Not surprisingly therefore, PRIs have very limited capacity for service delivery. The next two tables below summarize the control that PRIs have over local administrative systems and civil servants working within their jurisdictions.

Table 8: Administrative Decentralization to PRIs

Indicator	Andhra Pradesh	Karnataka	Kerala	Maharashtra	Madhya Pradesh	Rajasthan	Uttar Pradesh
CONTROL OF ADMINISTRATIVE SYSTEMS							
ZP controls DRDA	No	No	No	No	No	No	No
Collector controls DRDA	Yes	Yes	Yes	No	Yes	Yes	Yes
Other IAS/Indian Forestry Services (IFS)/SAS Controls DRDA	Yes	Yes	No	Yes (CEO of ZP)	Yes	Yes	Yes
DRDA effectively integrated into ZP or abolished	No	No	Not yet	No	No	No	No
ZP can alter implementation guidelines	No	No	Flexible	No	No	No	No
CONTROL OF STAFF WORKING AT THE DISTRICT LEVEL							
Class I/II officers report to ZP	No	No	No	No	No	No	No
ZP can recruit, promote, discipline Class I/ II officers	No	No	No	No	No	No	No
Class III/ IV officers report to ZP	No	No	No	No	No	No	No
ZP writes ACR for Class I/ II	No	No	Not in practice	No	No	No	Adds Comments
ZP writes ACR for Class III/ IV	No	No	Not in practice	No	No	No	Adds Comments

Source: Own analysis based of Field Investigations.

Table 9: Administrative Decentralization at the Block Level

Indicator	Andhra Pradesh	Karnataka	Kerala	Maharashtra	Madhya Pradesh	Rajasthan	Uttar Pradesh
CONTROL OF ADMINISTRATIVE SYSTEMS							
PS controls Block Devt. Office	No	No	No	No	No	No	No
Other IAS/IFS/SAS Controls Block Development Office	Yes	Yes	No	Yes	Yes	Yes	Yes
BDO effectively integrated into BP or abolished	No	No	Partial	No	No	No	No
PS can alter implementation guidelines	No	No	?	No	No	No	No
PS can initiate independent audits							
CONTROL OF STAFF WORKING AT THE BLOCK LEVEL							
Gazetted Staff report to BP	No	No	No	?No	No	No	No
PS can recruit, promote, discipline gazetted staff	Request teacher transfer	No	Can request transfer	Request teacher transfer	No	No	No
PS writes the ACR of gazetted staff	No	No	Not in practice	No	No	No	No

Source: Own analysis.

Issues in Fiscal Decentralization

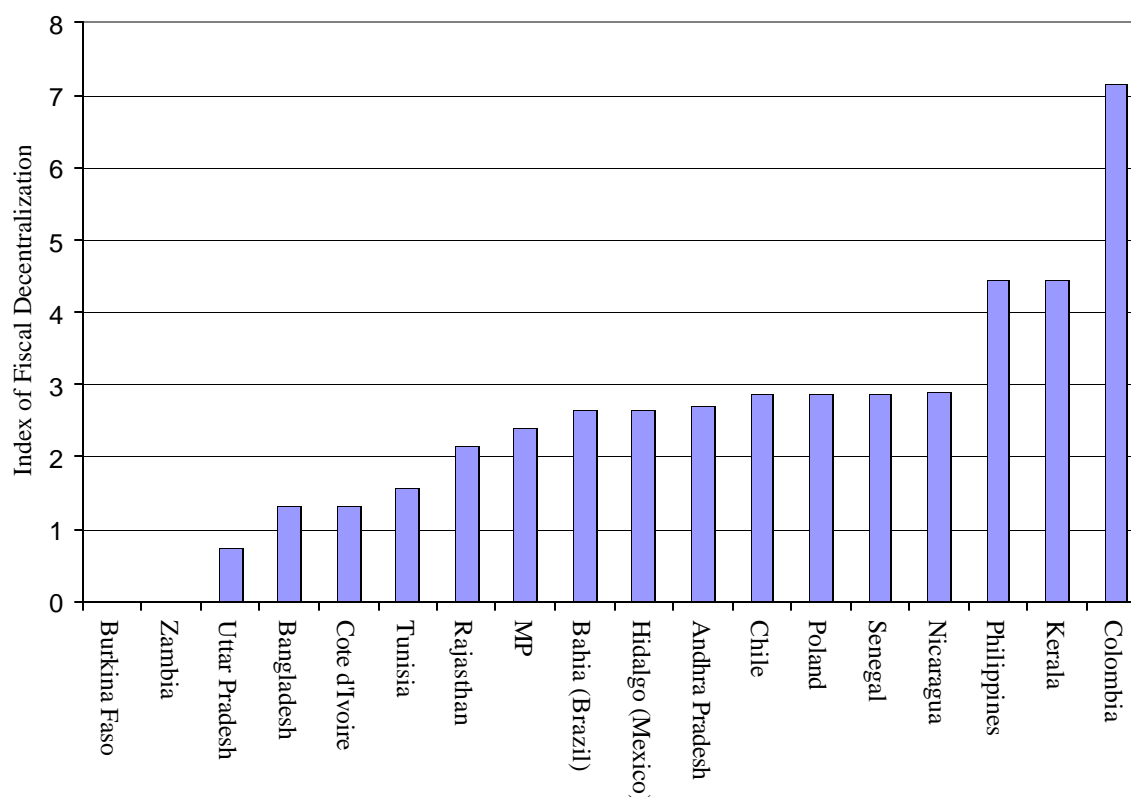
There is no transparency on the fiscal situation of PRIs. This section looks at the structure of revenues and expenditures of PRIs and attempts to measure the degree of fiscal decentralization. This is done by examining income and expenditure data for PRIs from official sources, published and unpublished, as well as relating them to field findings. A key conclusion of this exercise was that there was neither transparency nor reliable information regarding the fiscal situation of PRIs and their expenditure authority. Data used in this study was very difficult to obtain and interpret. For instance, data from different (official) sources on PRI revenue and expenditures are not consistent, budgets of PRIs are not balanced, and it is not clear which of the several hundred grant schemes accounted for in PRI budgets, besides JGSY, are actually somewhat controlled by the panchayats.

Kerala is the most fiscally decentralized state. The macro fiscal decentralization index shows the degree of expenditure and revenue autonomy of local governments.³⁷ The fiscal data shows that Kerala is second only to Colombia in fiscal decentralization and is further ahead of “big decentralizers” such as Poland and Chile. The other Indian states performed poorly. In Kerala, 35% of plan expenditures has been devolved to PRIs as broadly earmarked transfers. In other

³⁷ In order to arrive at the benchmark a average was taken of the shares of local government revenues and expenditures in five developed countries with a three-tier decentralized structure: US, Canada, Germany, Austria, and Switzerland. These countries are widely acknowledged as among the most decentralized worldwide. It was found that own revenues were 16% of total and own expenditures were 19%. Any of the countries in the sample that had these rates achieved a perfect 10. It was not possible from the benchmark to disaggregate into rural and urban which may hide substantial urban bias in some cases.

states revenue and expenditure autonomy is low. Overall all developing countries in this sample performed poorly in fiscal decentralization when compared with developed countries (see footnote). It remains a sticking point in decentralization reform.

Figure 4: Fiscal Decentralization in India in an International Comparison



Revenue Sources³⁸

PRIs own revenues are very low. PRI revenues fall into two main categories: own revenues and intergovernmental transfers. Table 2.1 in Annex 2 provides an overview of the range of PRIs' own revenue items in selected states. Own revenues are classified into (1) non-tax revenue, e.g., income from properties, fees, receipts, user charges, etc., and (2) tax revenues which can be grouped according to where they are collected: (2a) own tax revenue are those that are assigned to and collected by local bodies, (2b) taxes assigned are collected by the state government and given in to (after deducting collection charges) to local bodies, and (2c) revenue from shared taxes are entirely collected by the state government but subsequently shared with local bodies. PRIs' tax and non-tax own income per capita of rural population is very low, ranging from 6 Rs. per head in UP to 50 to 60 Rs. per head in Maharashtra, Madhya Pradesh and Andhra Pradesh.

³⁸ An additional potential revenue source for PRIs are loans from state governments, or financial institutions. This potential source of revenue was added only very recently after Prime Minister Vajpayee announced direct lending to Panchayats on May 7, 1999.³⁸ GPs, self-help groups and NGOs would now be allowed direct lending from the revamped Rural Infrastructure Development Fund for providing roads, primary education centers, rural health centers and drinking water in villages. This, however, does not mean that the PRIs can directly raise loans outside of this scheme.

Only Kerala has a somewhat higher own revenue income with 110 Rs. per head. With the exception of Madhya Pradesh, the income per head for PRIs has not increased in real terms over the last years. In most states, only GPs are empowered to levy taxes directly³⁹. The two higher rural tiers, PSs and ZPs sometimes receive proceeds from shared or assigned taxes or receive a surcharge on GP taxes (e.g. AP and Kerala), but often rely fully on state and central grants and user charges. This is consistent with functional assignments since ZPs and PSs are allotted supervisory functions or they act mainly as executing agents for the state government, whereas the GPs carry out functions (including some obligatory) such as public facilities, health, minor construction, minor irrigation, village roads etc.

Intergovernmental transfers, although small, are the most important revenue source for PRIs. Most of these transfers are grants by the center, either directly, or through the states, frequently with small additional funding by the individual state. Although these are counted as a revenue source, PRIs have little discretion over them because (a) they are tied in nature; and (b) almost 80% go to wages for staff who do not report to PRIs. Often, these transfers are matching grants which bind own resources⁴⁰. Some ‘general purpose grants’ such as grants in aid arising from the recommendations of the CFC, or centrally schemes and schemes originated by the National Planning Commission, give some decision making powers to locally elected authorities. An example is the Jawahar Gram Samridhi Yojana (JSGY) scheme which gives PRIs some discretion over the choice of works, within a broad category of infrastructure.’⁴¹,

Expenditure Items

The main expenditure item of rural local authorities is General Administration. By order of importance PRIs expenditures are: (1) general administrative services, (2) discretionary and obligatory services, (3) expenditures on development grants, and (4) other expenditures. Shares of spending on these items vary considerably between states and tiers of PRI. Table 10 presents a breakdown by expenditure categories for selected states for all three PRIs levels.

General administrative services make up for between 5.1 % (Uttar Pradesh) to 83.4 % (Rajasthan) of total PRI spending. For Panchayats at a particular level, expenditures for general administrative services can be close to 100 % (Table 11). By far the bulk of these expenditures are for salaries for PRI staff. However, as discussed previously, most of this staff, in particular technical employees, are in practice part of and report to line departments.

³⁹ GPs have the right to raise own tax revenues according to the Constitutional Amendment.

⁴⁰ Most of the central schemes require a matching contribution from the states, e.g., IRDP 50%, TRYSEM/JRY 20%, and DPAP 50%.

⁴¹ The centrally sponsored schemes (funded by the central government) are implemented through the District Rural Development Agencies (DRDA), which are generally in practice still under the administrative control of state governments, despite a 1995 Union government decision to bring DRDA under the overall supervision, control and guidance of the PRIs, the elected head of the ZP being the chairperson of its governing body.

Table 10: Expenditure Items as % of Total Expenditure by Selected State in 1998-99

	Andhra Pradesh	Kerala	Madhya Pradesh	Rajasthan	Uttar Pradesh
General Administration	49.8	7.2	23.7	83.4	5.1
Salary of <i>Panchayat</i> Staff	47.1	5.3	22.7	76.6	4.0
Terminal Benefits	2.4	0.5	0.2		
Maintenance of Assets, Others	0.3	1.4	0.8	0.1	1.1
Obligatory Services	14.6	12.8	16.2	2.1	4.7
Discretionary Services	2.2	1.3	0.3		
Expenditure on Development Grants		68.9			
Expenditure on State Government Grant	27.9		1.4	6.5	12.1
Expenditure on Specific Purpose Grant			12.2		
Expenditure on CSS	2.7		37.7	0.3	34.3
Expenditure on TFC Grants	2.7		5.6	5.9	16.1
Any other expenditure	0.2	9.8	2.8	1.9	21.5
Total	100.0	100.0	100.0	100.0	100.0

Source: Own calculations based on official data from State sources.

Table 11: Expenditure on General Administrative Services in % of Total Expenditure

	Andhra Pradesh	Kerala	Madhya Pradesh	Rajasthan	Uttar Pradesh	simple average
Zilla <i>Panchayat</i>	17	6	11	46	0	16
<i>Panchayat Samitis</i>	93	16	75	90	n.a.	68
Gram <i>Panchayat</i>	29	2	15	68	25	28
Total (weighted average)	50	7	24	83	5	34

Source: Own calculations based on official data from State sources.

Public services provided by PRIs outside the various grant schemes make up for only a minor share of total expenditures. These services are classified into (a) discretionary services such as those for parks and play grounds, library and reading rooms, markets, bus stands or even welfare programs⁴², etc., and (b) obligatory services which, dependent on the state, include services such as water supply, street lightening, sanitation roads, health or education. Expenditures on obligatory services are so low that PRIs cannot be expected to have any significant impact on the provisions of these services.

PRIs rely on development grants for most of their development expenditures. The most important schemes are JSGY (formerly JRY) and SGSY, which are centrally sponsored. Most other grant schemes are tied leaving no room for Panchayats to make decisions over them. Subtracting these tied grant schemes and salaries for staff not reporting to PRIs from the official PRI budgets shows that the amount of funds effectively under the control of rural local authorities is substantially lower than the official budgets suggest.

Measures of Fiscal Decentralization

Four main indicators of fiscal decentralization and autonomy in revenue and spending were calculated. These are:

⁴² In Andhra Pradesh, SCST welfare and Women and Child Welfare services are accounted in mandals' and ZPs' budget.

Fiscal autonomy: share of local revenue from own sources in total local income.

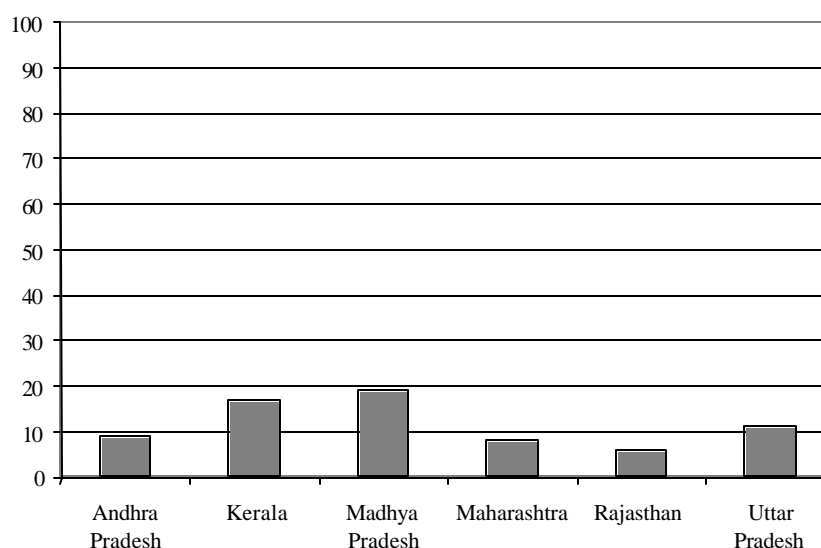
Revenue dependency: share of grants from higher level governments in total local income.

Revenue decentralization: ratio of local revenue from own sources to total state government revenue.

Expenditure decentralization: ratio of total local expenditure to state government expenditure.

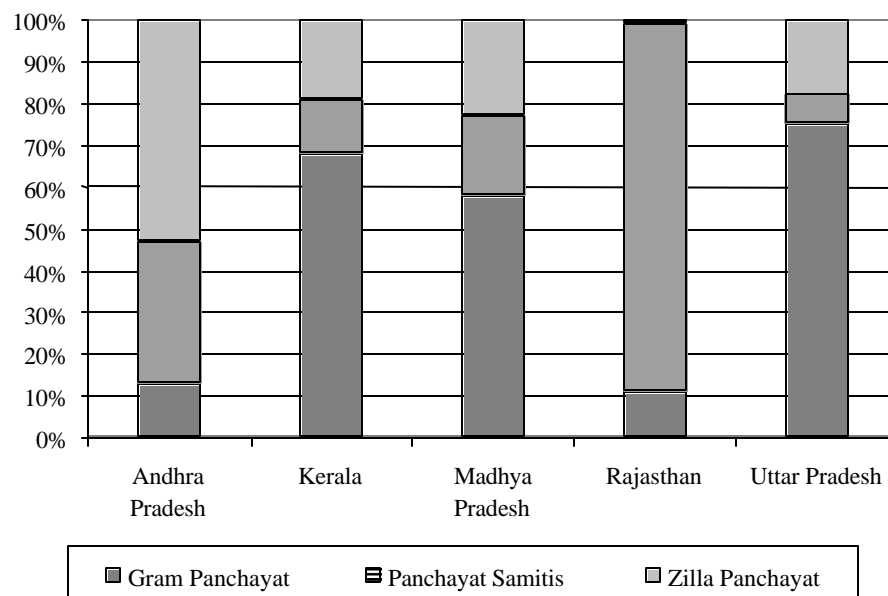
Fiscal Autonomy is very low. Fiscal autonomy measures the extent to which local bodies can raise their revenues independently i.e., on their own accounts. Fiscal autonomy is calculated by dividing PRIs' own revenues (non-tax and tax revenue, including assigned and shared taxes) by their total revenue income. The results for the PRIs show that the degree of fiscal autonomy is very low for PRI levels in most states, varying between only 6 % in Rajasthan to 19 % in Madhya Pradesh (Figure 5). Block and Zilla, panchayats which often have no own income other than fees, user charges, etc., are heavily dependent on intergovernmental transfers, most of which are tied to very specific requirements or provided as matching grants. GPs, which work the Constitutional Amendment, have the right to raise tax revenues and have a relatively high fiscal autonomy reaching a level of about half of total revenue in Andhra Pradesh and Madhya Pradesh. The fiscal capacity of the different levels of PRIs varies enormously between different states. To a great extent, this reflects the differences in the functions of these local bodies. The GPs are the dominating level in Kerala, Madhya Pradesh and Uttar Pradesh. The same holds for Maharashtra for which data was insufficient to present an exact number. In Andhra Pradesh, both, the block level and the ZP are relatively strong. Rajasthan is the only state where the block has the highest share in total PRI budget (Figure 2).

Figure 5: Fiscal Autonomy of PRIs : Selected States in 1998-99



Source: Own calculations based on official data from State sources.

Figure 6: GP, PS, and ZP Revenue in % of Total PRI Revenue by Selected States in 1998-99



Source: Bank calculations based on official data from the States.

Revenue Dependency is high. Revenue dependency measures the degree to which local bodies depend on transfers for their incomes. Revenue dependency, is almost a mirror image of fiscal autonomy.⁴³ It measures the share of grants from higher level governments in total local income. Figure 3 presents the results of these calculations. Although revenue dependency of PRIs has declined somewhat in a number of states, it is still considerably above 50 % in all states analyzed. In Kerala revenue dependency has increased considerably because state transfers have increased. However, the calculations – as those for fiscal autonomy – are based on actual budgets, i.e. they do not exclude revenue items such as tied grants which are not controlled by PRIs and hence should not be taken into account.⁴⁴

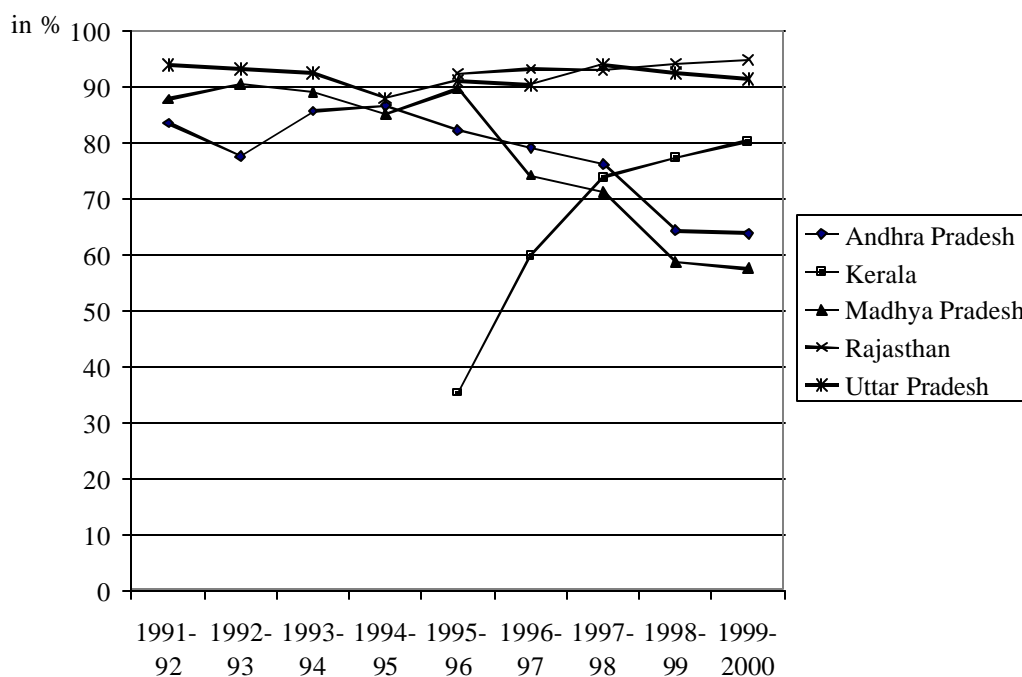
Revenue Decentralization is low. Revenue Decentralization measures the importance of local bodies in total government revenues. These are calculated as the share of local government's own revenue in total (center, state, local) government own revenues (Table 10). These figures have to be interpreted with particular care. Local government includes both PRIs and municipalities. For the latter, no aggregated budget by state were available and had to be

⁴³ In many cases, the figures for fiscal autonomy and revenue dependency add up to 100 %. However, additional income sources besides own revenues and grant income such as loans change the picture for some PRIs.

⁴⁴ As discussed above, the exclusion of certain budget items requires precise knowledge about the various schemes and how they are implemented in practice. While a attempt has been made for other indicators, the picture of fiscal autonomy and revenue dependency presented here is based on actual budgets.

estimated. Per capita own revenue of a 1997/98 sample⁴⁵ was used as the basis for estimating income of urban local authorities. The sample includes 250 municipalities, which disaggregated by state leads to outliers and distortions. For example, the sample municipalities in Maharashtra had per capita income of Rs. 1928 per capita, while the sample average is only 670 Rs per head and for the other states more closely analyzed in this paper, the numbers are even lower. Despite these shortcomings, the rough order of magnitude of fiscal revenue decentralization presented in is probably not too much off the mark. Revenue decentralization is low by international standards. The calculations show a share of local revenue roughly between 1 % and 5 % for most states. These numbers include both rural and urban development funds. On per capita basis, these ratios would be lower because majority of the population is in rural areas, but urban areas account for most of the revenues. For example, in Maharashtra, local bodies account for 17% of government revenues. However, share of PRIs in the share of local revenues is only 5%.

Figure 7: Revenue Dependency of PRIs by Selected States, 1991-92 to 1999-2000



Source: Bank calculations based on official data from the States.

⁴⁵ We like to thank O. Mathur from National Institute of public Finance and Policy in Delhi for providing us this data.

Table 12: Revenue Decentralization by Selected States, 1997-98

	Andhra Pradesh	Kerala	Madhya Pradesh	Maharashtra	Rajasthan	Uttar Pradesh	average*
Center	41.7	39.3	40.7	35.0	40.9	45.2	41.0
State	56.1	56.2	56.1	48.2	56.4	54.1	54.0
Local	3.2	4.5	3.2	16.8	2.7	0.7	5.0
Own revenue of rural in % of total local own revenue	36	40	38	5	9	25	24
Rural population in % of total population	73	55	61	77	77	80	73

Note: Averages are weighted by state population.

Source: Bank estimates based on official data from the States.

Expenditure Decentralization is increasing only slightly. India has decentralized considerably from the center to the state level over the last one and a half decades, but fiscal decentralization to local authorities is lagging. Since the mid nineties, there has only been a slight increase in expenditure decentralization to the rural areas. Table 13 shows, that the share of PRIs in total center, state and local rural spending increased only from 3.3 % in 1994-95 to 5 % at the end of the nineties, measured as a simple average of the 6 states analyzed. Kerala accounted for most of the increase. The variation between states is considerable, ranging from 11.9 % (Kerala) to only 2.2 % (Uttar Pradesh) in 1999-2000⁴⁶.

Table 13: : Share of PRIs in Total Government Expenditure for Rural Areas by Selected States, Actual Budget Figures, 1994-95 to 1999-2000

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Andhra Pradesh	9.2	8.7	9.3	9.9	10.5	11.0
Kerala	n.a.	4.5	7.1	7.8	11.1	11.9
Madhya Pradesh	2.5	3.5	4.5	9.4	6.7	7.0
Maharashtra	6.7	7.6*	8.4	8.5	8.3	8.3
Rajasthan	3.3	4.2	4.6	3.8	4.2	4.6
Uttar Pradesh	1.9	2.0	1.7	2.0	2.1	2.2
<i>Simple average</i>	<i>3.3</i>	<i>3.9</i>	<i>4.1</i>	<i>5.0</i>	<i>4.8</i>	<i>4.9</i>

Note: * not available, but simple average of 1994-95 and 1996-97 figures. Central and state government expenditure for the rural areas in the particular state plus PRI expenditure adds up to 100 %.

Source: Own calculations based on official data from State sources.

⁴⁶ The figures computed in Table 12 ensure that (i) total center government expenditure can be separated between states according to their share in total population, and (ii) total center and state government expenditure can be separated between 'rural' and 'urban' according to the rural and urban shares in population, the share of total 'rural' expenditure

The level of expenditure decentralization in India is very low. Firstly, not all the expenditures accounted for in PRI budgets are actually controlled by the elected authorities. Often, PRIs act merely as a channel or at most as a supervisory body for state or center government schemes (sometimes having to match them with own resources). For instance, in Andhra Pradesh, the share of PRI expenditures in total Government spending in rural areas drops from 10.5 % to 5.3 %, if one deducts those funds that are most clearly not controlled by PRIs.⁴⁷ It is likely, that there are other non-identified budget items which are not effectively decided upon by the ZP, PS or GP. Hence, in all probability, in all states analyzed but Kerala, the share of local authorities' spending is 5 % or below.

Secondly, when comparing India with other countries one has to take into account the immense size of the country. Most Indian states compare to relatively large countries in terms of their size of population. A district, the highest 'local' level in India, often has several million people, and would be comparable in population size to states in other countries (e.g. Brazil).⁴⁸ Fiscal decentralization to the truly local, i.e. GP level, is still extremely low in India, in particular in the rural areas. Data for 1998-99 shows, that with the exception of Kerala, GPs have virtually no fiscal strength. Table 14 shows, that even when using the actual budget figure, fiscal decentralization to village authorities ranges only between 0.6 % (Rajasthan) and 3.6 % (Madhya Pradesh) in the states analyzed, Kerala being the exception with 7.6 %. This translates into expenditures by GPs of less than 100 Rs. (US\$2) per capita per year in most of the states.

Table 14: Expenditure of PRI Levels (actual budget) by Selected States in 1998-99

	Andhra Pradesh	Kerala	Madhya Pradesh	Maha-rashtra	Rajasthan	Uttar Pradesh
Share in total government expenditure in rural areas (%)						
<i>Zilla Panchayat</i>	5.7	1.8	1.9	7.6	0.1	0.4
<i>Panchayat Samitis</i>	3.5	1.7	1.2	0.0	3.5	0.1
<i>Gram Panchayat</i>	1.3	7.6	3.6	0.7	0.6	1.5
PRI, total	10.5	11.1	6.7	8.3	4.2	2.1
Expenditure in Rs. Per capita						
<i>Zilla Panchayat</i>	324	117	93	470	3	19
<i>Panchayat Samitis</i>	196	112	59	0	193	6
<i>Gram Panchayat</i>	73	505	177	42	33	70
PRI, total	593	734	329	512	229	95

Note: Central and state government expenditure for the rural areas in the particular state plus PRI expenditure adds up to 100 %.

Source: Own calculations based on official data from State sources.

Thirdly, even though most PRIs have no technical staff, a great share of total expenditure is spent on general administrative services. As shown above, the share of General Administrative

⁴⁷ Field observations suggest that this is still an overestimation of fiscal decentralization to PRIs. In practice, almost all funds booked in PRI budgets seem to be controlled by institutions outside the elected local authorities.

⁴⁸ Clearly, focussing entirely on population is a simplifying and crude approach. The size population is not the only criteria based on which to form constituencies and many other factors such as social and cultural aspects, political and economic issues, historical and geographical considerations, population density, etc. should play their role in shaping an 'optimal' area of governance on the various levels within (and between) countries. However, population certainly is one of the most important single criteria when focussing on issues of the degree of accountability or distance between citizens and their government.

Services in Total Expenditures of GPs, PSs, and ZPs amounts to as much as 90 % of a local government's budget. All these aspects confirm the field observations that PRI institutions in most states have virtually no fiscal powers at all. The SFC report for Rajasthan (p.65) puts this very clearly by stating: *"For lack of their own resource base to determine a function-related, local need based expenditure pattern, these institutions [PRIs] have merely been reduced to executing arm at the field level, of the external funding agencies."*

Overall, there is only minimal fiscal decentralization even seven years after the 73rd Amendment and since the SFC recommendations were issued. In all seven states, budgetary resources of PRIs are very limited, with few taxes and fees and high dependence on transfers. The total shares of revenues and expenditures which accrue to PRIs as a percentage of all in-state revenues and expenditures ranges from about 1% to 4%. This is very low by international standards. Even more disturbingly, a great share of the funds reported in PRIs' budgets are not under the control of the locally elected authorities. Most of the intergovernmental transfers which are accounted as 'grants' in the PRIs' books, are for CSS with no or very limited discretion of local authorities. They may be administered by 'PRI' staff who, in practice, report to line departments rather than PRIs.

5. PARTICIPATION AND INCLUSION OF RURAL CONSTITUENTS

The preceding analysis demonstrates that decentralization in the states is largely incomplete in terms of establishing procedures and decision making powers which will support the vision of political, administrative and fiscal decentralization endorsed by the 73rd Amendment. Despite the need for further and more radical change, major efforts towards furthering decentralization have been made and these are, to a certain extent, creating legitimate official space for rural people to engage equally in the processes of civil society. However, in a traditionally hierarchical society, legislation and changing the formal rules of operation does not necessarily mean that citizens are able to take full advantage of this enabling environment. This section of the report looks beyond formal action and examines how far the current changes have in practice enabled rural men and women to participate in the development and governance of their local areas and the extent to which the rural constituency is seizing the opportunities created by rural decentralization.

The discussion in this section is a summary of issues and results presented in two background papers in Volume 3: de Souza, Peter (2000) "Multi-State Study of Panchayati Raj Legislation and Administrative Reform"; and Alsop, Ruth, A. Krishna and D. Sjobloru (2000) "Are Gram-Panchayatis Inclusive".

The Issues

There is little disagreement over the extent of social and economic inequality in Indian villages. The debate rather focuses on the instruments and processes of decentralization such as Gram Sabhas, accountability mechanisms, people's planning and their potential to initiate social transformations leading to inclusive self-governance. Two schools of thought emerge in India. There are those who think that the opportunities created by decentralization will, over time, enable disenfranchised groups to emerge as empowered participants in local democratic

processes and there are others, who believe that, unless remedial action is taken, the constraints remain so serious that these groups will be unable to perceive and act upon these opportunities. The debate centers on two themes: first, the nexus of power and social structures; and second, the factors – literacy, information and accountability – which can assist in addressing the factors currently undermining equity and inclusion.

Rural power was traditionally associated with land ownership. This gave the landlords control over the material lives of those working on their land and access to sets of social relations which enabled them to maintain their positions. Even as land ownership loses its status as the key to power, the long vestment of rural elites in relationships which reinforce the status quo reflects in their continued domination of the social, economic and political lives of rural settlements.

Box 6: Elite Dominance in Village Life

In one village in Madhya Pradesh, where the patron-client relationship was regarded as mutually beneficial, a group of female laborers working for the Upsarpanch explained that: “We depend and rely on him for everything. He ensures us employment for 12 months; he gives us loans when we need; and he supports us at the time of any crisis. Our life would be very difficult if it was not for him. If anybody is going to give us any benefits from the Panchayat it will be him”

Box 6 documents a situation common in rural India. The overlapping spheres of influence of certain groups is supported in a huge literature. Further, factor analysis forming part of an empirical investigation of inclusion in Gram Panchayat activities in MP and Rajasthan,⁴⁹ clearly indicated that a single quality or set of attributes made certain groups of people more active than others in panchayat activities.

In addition to this control of the economic and political spheres, there is evidence that the elite, partly because of the strength of their relationship with political and administrative government, benefit – to the detriment of the poorest – from poverty targeted schemes which offer opportunities ranging from asset development to welfare programs. This structure of rural power persists even post the 73rd Amendment. This has been well documented in the case of U.P.; “Panchayati Raj, ... is the raj of the big people. In the public domain, poor villagers continue to be expected to comply. Some changes have taken place, though.. These cases demonstrate that Panchayats fail to function even in villages where the lower castes have succeeded in securing control over the Panchayats. The dominant elite retains sufficient intra-village and supra-village power, which allows it to obstruct the development efforts.... Access to power, infra-structural facilities and state institutions continue to be mediated through the established land-owning families”.⁵⁰

In India’s highly differentiated society a large proportion of the population is thus doubly disadvantaged. Not only do these people lack material and high quality human assets, they also

⁴⁹ Background study #1

⁵⁰ Leiten, G.K. and R.Srivastava. 1999. Unequal Partners: Power Relations, Devolution and Development in Uttar Pradesh, IDPAD no 23, SAGE, New Delhi, p 202.

carry the oppressive burden of social stigmatization. Exclusion is thus both a cause and an effect. On the basis of their social positioning – whether according to caste, ethnicity or gender -- people are excluded from certain social, economic and political opportunities.

Given the pervasiveness of this exclusion, is it reasonable to expect that overtime marginalized groups will increase their participation in local self-government? Some writers argue that despite previous submissiveness a new assertiveness is emerging through the language of rights. The journalist P.Sainath re-visiting some of the rural areas he reported on 7-8 years ago recently stated that the ‘single biggest battle for human dignity is taking place in India today’.⁵¹ The *Dalits* (broadly, the SCs) are fighting on multiple fronts simultaneously, and PRIs are one of the important ones.⁵² Violent reprisal, such as caste violence in Tamil Nadu and caste massacres in Bihar, provide evidence of the success of *Dalits* in making inroads into the traditional power structures, through the new language of rights as well as of their increasing political empowerment through *Panchayati Raj*.⁵³ In rural North India the traditional rule by latent coercion has become increasingly violent as the private armies of the elite respond to *Dalit* demands by torching houses, raping and looting *Dalit* settlements.⁵⁴ As Box 7 illustrates, the story is not so different in the South. The oppression of *Dalits* is paralleled by the suppression of tribal people.

Box 7: Caste and PRIs in Tamil Nadu

“For the past two months the southern districts of Tamil Nadu have been rocked by caste-related clashes in which six persons were shot dead by police while 14 more were killed during the clashes. The main reason behind these clashes was the planned effort by oppressive castes to throw out *Dalits* from their settlements. It is a sorry state of affairs that even the political and the state power stood beside the oppressive castes. Following this what happened at Melavalavu village on June 30, 1997 was the epitome of intolerance by high caste people. On this day just because *Dalits* stood for elections to the village *Panchayat* (Melavalavu being a reserved constituency) the high caste people of the village brutally murdered six persons, including the President and Vice-President of the *Panchayat*, in broad daylight. They severed the head of the *Panchayat* president and threw it inside a well... The post of the *Panchayat* president in this village was reserved for the *Dalits* during the recent *Panchayat* elections. The high caste people, unable to face this encroachment on what they had traditionally considered their domain, protested against it and threatened the *Dalits* with reprisal if they contested for the post. They burnt even their houses. (Larbeer, Mohan 1997. ‘Atrocities in Melavalavu *Panchayat*’, *Panchayati Raj* update, July, no. 43, p. 6).

While the overall increase in opportunities for participation in the democratic processes of society brought about by the 73rd Amendment and the policy of reservations in particular has created an enabling environment, the impact of these remains unclear. (see Box 8).

⁵¹ Workshop on Dalits and the State, organized by Vikas Adhyayan Kendra, Old Goa, 2-4 February 2000.

⁵² P.Sainath has recounted this struggle for human dignity in his series of articles on Dalits in The Hindu.

⁵³ Discussant Mark Robinson’s comment on the paper of Peter.R.deSouza ‘Decentralization and Local Government: the ‘second wind’ of democracy in India’, at the conference on Constitutional Ideas and Political Practices: Fifty Years of the Republic, 22-25 January 200.

⁵⁴ The emergence of the middle castes as a political force as a result of the Green Revolution, has introduced one more theatre of struggle for the Dalits who now have to fight against these castes that have benefited from the limited land reforms and are thus resistant to more radical measures of further redistribution.

Box 8: Views of the *Gram Panchayat*

“Most people feel that they have right only to elect their representatives, not to direct or supervise their activities,”⁵⁵

“Gram Sabhas are called as often as the law requires, but hardly anyone attends. What can they achieve by attending? They know that the sarpanch will do exactly as he pleases regardless of who attends and who does not.”⁵⁶

“We go out among the people when we need their votes,” one elected representative said, “Once we are elected, however, our contact with the public is greatly reduced.”⁵⁷

A mixed group of villagers in Rajasthan reported: “. Benefits are not many. We never got any. We will not get benefits by going to the Panchayat meetings. You have to have the right connections.”

In a *panchayat* in MP a group of elder villagers clearly articulated the message heard many times over in villages, “What can we or any other villagers do about this (mis-use of funds). We have to get on with our lives and earn our livelihood, and after all, the *Panchayat* is not that important for our daily lives.”

Field Findings

Much of the discussion in the literature on these issues revolves around hypotheses and anecdotes. Few systematic enquiries seem to have been made. A background study for this Overview attempted a rigorous analysis of how effective PRIs currently are in representing the interests and needs of all citizens. (Background Study #3, Chapter 8). The study investigated exclusion within PRIs from six districts of Rajasthan and MP. Participation (in elections and other political activities) and distribution of benefits were used as proxies for inclusion.⁵⁸ A mixed methodology was used to enable both econometric and non-quantitative analysis. The key findings follow below and are supplemented where appropriate with the outcomes of discussions conducted by a team who visited all seven states.

Elected PRI representatives at every level feel marginalized. Discussions in seven states revealed that except for Kerala and Maharashtra, in general PRI representatives expressed deep frustration at having no real powers despite being duly elected as representatives of the people, and having formed various *panchayat* working committees as per the various state acts. These representatives felt that the real powers remained with the bureaucracy at all levels, and with state politicians, while the *panchayats'* role was largely restricted to selecting beneficiaries for centrally-sponsored and state schemes (according to detailed, pre-specified scheme criteria).

Males, well informed citizens and educated people are most likely to be active in the Panchayat. Individual villagers who participate highly in one activity related to *panchayats* are

⁵⁵ Interview with Zila Parishad, Bhilwara, Rajasthan, July 30, 1999.

⁵⁶ Interview with *Adhyaksh*, Janpad Panchayat Manasa, Madhya Pradesh, July 17, 1999.

⁵⁷ Interview with Pradhan, Panchayat *Samiti* Raipur, Rajasthan, August 1, 1999.

⁵⁸ It is important to note that this investigation provides a base line of what the situation is today, but not an assessment of its potential to evolve in the future.

likely, the data indicate, to participate equally highly in all other activities. Correlating respondents' attributes against a broad index of participation demonstrated that being male, well educated and well informed was associated with consistently high levels of participation in *panchayat* activities.

Participation is not affected by caste or land holding.⁵⁹ Both the villagers' as well as the representatives' data sets indicate that caste and size of landholding are not particularly relevant in relation to participation in PRIs. With the important exception of landless representatives, differences in landholding and caste membership are not associated with any significant differences in participation levels.

Box 9: Villagers Experiences of the Panchayat

"My husband died about 15 years ago. I have two young sons and a daughter. I and my son go out for labor work early every morning and return late in the evening. I have no idea of what happens in the *Panchayat* and how they take decisions. I have approached the Wardpanch several times for a loan, but nothing has happened. We have nobody to tell us the right way. Had my husband been alive he would have mixed with the other men and found out". *An SC Widow in Ajmer district*

"I am uneducated. I do not know how the *Panchayat* is run. I go out of the village for labor work for about six months and so do my close relatives. People who are in the *Panchayat* call me for work in their fields when I am here – not to the *Panchayat*. I never got any benefits from the *Panchayat*. You have to be here and have time to be involved in village affairs to gain something". *A migrating blacksmith from Ajmer district*

"I have tried to get a house from the *Panchayat* for many years. I am one of the few people in the village who live in a rented house. This is my deceased wife's village. I know people here, but not very closely. She also had few family members here. I have no links with any elected people. They will never give me a house." *A daily wage laborer in Neemach district*

I used to work in the fields of the *Sarpanch* a few years back. Then I got a job as a tractor driver for another big landowner. I had applied for a loan to purchase buffaloes. When I worked for the *Sarpanch* he said he would get it for me as he had done for other people who worked on his farm. I never got a loan while others did". *A tractor driver in Ujjain district*

"People who have big households always have one member who has some time and money to spend on drinking with the *Sarpanch* – they are the ones who get benefits. They got houses and loans. We have few household members who are all busy in managing our livelihoods". *A group discussion in Neemach district*

Education and access to information are the two most significant influences associated with participation. Regression analysis demonstrated that every additional year of education is associated with a difference of about two points on the participation index, implying that a person with 10 years of school education scores 20 percentage points higher than a person who has no education at all. The addition of one more source of information to a person's repertoire

⁵⁹ It is important to contrast these results with results from the field investigation in seven states (Volume II). In here the evidence is that low caste people "participate" in the political process. The field investigation of Volume II reported that elected low caste representatives were disadvantaged in multi-caste meetings, such as those of councils and GPs. These are not contradictory conclusions. At that level caste matters. Similar results were reported by Crook and Manor (1998) for Karnataka.

(among six considered in the study) increases participation by more than five additional percentage points. Hypotheses regarding the ability of disadvantaged groups to participate in local democracy are often framed in terms of creating enabling conditions for participation, namely information and literacy. The spread of education and the proliferation of radio, television and newspapers, especially over the past two decades, have been accompanied with changes in village-level patterns of influence and political participation. Ascriptive status based on caste or land ownership appears to have weakened as a source of authority in villages; and acquired status, based on education and better information appears to have become more important. The acquisition of education and information by poorer, low status people appears to be eroding some advantages previously held by upper caste and wealthy villagers. Education and information may therefore be two of the most important instruments to enhance inclusion and local democracy.

Participation rates among women rise considerably with higher access to information.

Women who have access to a larger number of information sources participate to a much larger extent than other women who derive information from fewer sources. Women who have access to two or fewer sources of information fare the worst among all women. Information makes a considerable impact, these data indicate, toward mitigating differences in participation rates that arise on account of gender differences. Education has a similar impact on inclusion of women.⁶⁰

Landless people, tribals and women are excluded. People who own even a small amount of land participate in activities associated with the GP. However, if a household has no land its members are less politically active. Across the board, tribal people (both male and female) participate less than any other group. Gender is a key factor in determining peoples inclusion in GP activities. Women participate significantly less than men. The operation of social factors, which limit women's involvement in public affairs, is also reflected in the generally low levels of education and information access that prevail among women.⁶¹

Women in rural society continue to be the most disempowered. An intricate set of rules relating their behavior to the social positioning of the household has meant that in general high caste women experience high social status outside the domestic sphere and low status within the household. Lower caste and tribal women in general experience a reverse of this situation. However, whatever the social group, apart from a few special cases, the world of public politics has been traditionally closed to most women. Now though, opportunities provided by 73rd Amendment and reservations do appear to add momentum to the current and broader challenges to conventional gender relations. The number of women now in positions of power is large and while evidence on the impact of this on the empowerment of women is mixed there are many examples of women who used the opportunity to become more active and assertive. Almost half

⁶⁰ We ran separate regression models where we considered interactions between gender and education (gen_edu) and gender and information (gen_info) along with the other independent variables considered in Tables 3 and 4. Both these variables were significant at the 0.05 level in regression models. In the dataset for ordinary villagers, the coefficients for these variables are 0.9 (for gen_edu) and 0.85 (for gen_info). Since the corresponding coefficient for the variable, gender, is -13.4, it follows that a women who has, for example, ten years of education and who can access six sources of information is able to neutralize differences arising on account of gender alone.

⁶¹ Correlation coefficients between gender and education and gender and information were both of the order of minus 0.42, indicating that women are, on average, considerably less educated and they consult fewer sources of information than men.

a million out of a total of 1,435,867 of locally elected politicians are women. Many writers believe that this cannot but have a transformative effect. Others disagree: “(reservation for women) has only led to a membership or even pradhanship by proxy. For the pradhan, the statutory female quota appears best fulfilled by selecting socially vulnerable women: divorcees, widows, spouses of migrant husbands, fit the bill. Their bargaining power is usually non-existent (and their dependence on men is high). Their knowledge of the world outside the village and of opinion within the village on important developments in that world is abysmally low.” (Leiten and Srivastava, 1999). (See Box 10)

Box 10: Mixed Experiences of Women Representatives

The case of Sudha.K.Patil, a blind *Sarpanch* of village Changa in Anand district (Gujarat) shows how this opportunity begins to change social relations and self-esteem. Sudha Patil when asked whether she would be interested in becoming *Sarpanch* again replied that she would ‘like to contest for the *Lok Sabha* and show what an MP can ideally do for rural development and social welfare’. Interview with Sudha.K.Patil, 1999. ‘Face to Face’, *Panchayati Raj Update*, May, p6.

Interviews in **UP and MP** indicated that when seats become reserved for women, many are put there to allow their husbands to have uninterrupted political careers. These men often attended PRI meetings and spoke. This was openly admitted by some male *Sarpanches*. UP has passed a law to address this issue. It prohibits husbands of female PRI representatives from being in the same room when PRI meetings are being held.

In Andhra Pradesh where the seat of *Sarpanch* is reserved for an SC women the female incumbent Venkataramamma, was supported by the village elder, Balwanta Reddy, a rich landlord from higher caste, who has been the Mandal *Panchayat* member for three years before opting to be the Chairman of Single Window Scheme. Both he and Venkataramamma are members of Telagu Desam Party. Venkataramamma is 50 years old, and works as a coolie-wage earner on agricultural field. She finds employment, at times, with Balwanta Reddy, thus making her dependent on him. Decisions regarding the day-to-day running of the panchayats, especially those related to the development works are taken by her, in consultation with Balwanta Reddy. She does not even consider it necessary to involve other –than-*panchayat* members, in decision making processes. Despite her “efficient” performance, she does not consider standing for the next round of elections on her own, without the support of Balwanta Reddy and the party members. Otherwise, the chances of winning elections, are remote.

Reservations appear to have had the unintended effect of restricting SC/STs and women to reserved seats. Discussions point towards the idea while the reservations have improved the physical/numerical presence of women and SC/STs in elected bodies, it has not been as successful in ensuring that they have an equal voice in PRI deliberations, in particular at the village level. It was clear from the dynamics of interaction between low and high caste PRI representatives at the same level (e.g. block *panchayat*) and between men and women, that neither of these groups is generally able to assert themselves as equals to upper caste men. Lower caste women had the additional problem of being discriminated against by low caste men based on gender, high caste women on a caste basis, and upper caste men on all fronts. In several states, SC women *Sarpanches* either did not speak up or even sit in a prominent position with male *panchayat* members. In other cases their voices were actively suppressed. There are some cases however when reservations have improved political articulation of women and SC/STs. At the time of writing there had been only one round of elections since the reservation policy was implemented. As it would be overly optimistic to expect an immediate behavioral response, *en masse*, as a result of legislation, this result is not robust. It does however suggest that it will be

important to track the impact of reservations on inclusion over time to assess whether inclusion is increasing.

Reservations do not appear to have an impact on GP effectiveness. Critics of reservations allege that efficiency and performance have suffered because of reservations. It is claimed, especially by upper-caste males interviewed, that well-qualified persons are debarred from public office as they are of the wrong social group. Reservations for women have caused considerable consternation, in particular among upper-caste males who occupy or who used to occupy leadership positions. The study in MP and Rajasthan attempted to test the hypothesis that efficiency is undermined by pro-inclusive policies through a cross-section analysis of villages with and without a reserved seat for *sarpanches*. Efficiency was measured through an Index of Public Satisfaction, which related to people's perceptions of how well or poorly different services were being provided in their village. The results indicate that none of the three reservation variables (caste, ethnic group or gender) were significant in regression analysis indicating that average satisfaction levels are not significantly different between general panchayats and those reserved for women, caste and tribal candidates, respectively. More than reservation type, other characteristics of the *sarpanch* particularly education levels, are relevant for understanding relative performance levels.

The presence of civic organizations does not enhance participation in PRIs. Many writers argue that for PRIs to work, they need to draw on the resources of civil society. Self-help groups, voluntary associations, NGOs all have a potentially complementary relationship with PRIs. Even though NGOs sometimes compete with PRIs, because they work in the same area, their role as a 'social critic and policy advocate for specific issues' and of 'building civil society institutions' show important synergies between the two⁶². A vibrant civil society is therefore good for PRI governance.⁶³ The study attempted to test the hypothesis that where other village organizations were present *panchayats* would display higher rates of political and social inclusiveness, higher rates of social cohesion and an increased propensity for collective action. This was done by examining the impact on participation in PRIs of the presence of both self-evolved village organizations, e.g., religious groups and traditional village councils, and also externally invoked village organizations, such as those that were set up in the course of implementing particular sets of development activities e.g. watershed committees, women's savings groups, and education committees. In each of the eight GPs studied in the intensive phase, multiple local organizations of both types existed. However, across the villages studied the presence of such other forms of organizations had no impact on more broad-based social or political inclusiveness in the *Panchayat*. The text box (Box 11) below gives insight into the discussion and explanations given by people as to why their levels of participation in the *panchayat* were lower than in other local organizations. It appears that at present most people have few stakes and see little value in participation in the GP.

⁶² Mahajan, V. (1998), Challenges before voluntarism, Seminar, Annual, p85.

⁶³ Mathew, G. (1999), 'Decentralized institutions: Governmental and voluntary sector', Economic and political weekly, Feb 27, 1999, p533.

Box 11: Gram Panchayats in Relation to other Local Organizations

A group of women in a village in Ujjain district discussed the fact that they did not participate in the gram *panchayat* but did in a religious group: “We’ve had a religious group for women for the last five years. It is for all castes. We assemble at festivals and other occasions at the village temple. It is nice to maintain and spread religious ideas. We also get a chance to gossip with other women. The *Panchayat* is not for us. Nobody has asked us to attend the *Panchayat*. Men take care of all that. We are also not very interested. We have other things to do. Women in our village are not supposed to move here and there. We cannot sit with all the men. There is no purpose for us also to go to the *Panchayat*. If really there are any benefits the *Upsarpanch* will tell us”.

Similarly, in tribal Dungarpur district two women said that they did not go to *panchayat* meetings but did belong to a women’s savings group. They commented that: “The savings group has a purpose. All women meet to deposit money and to decide on who can take loans. We will get benefits. There is no work for the individual in the *Panchayat*, and especially not for women. What will we gain from participating there? Whether we go or not does not make a difference”.

A landless daily wage laborer in Neemach district discussed the role of the *Panchayat* and why the traditional village council continued as a separate and more influential organization: “Our old way of solving conflicts still work because people have little faith in the police and other outsiders. If anyone calls me to assist in solving a conflict it is my duty to go and help fellow villagers. The *Panchayat*- what will it do for us! Why should I waste my time! I will not gain by going there. If at all I will gain from the *Panchayat* it is only by knowing the certain people”.

Summary

A substantial literature on rural decentralization in India indicates that the profound social divisions existing in rural India are the biggest obstacle to inclusive and poverty reducing rural decentralization. Currently, decentralization efforts address this issue only through reservations and by targeting programs. Neither measure appears currently to be particularly effective in terms of improving opportunities for poor and vulnerable people, especially women and tribals, to meet their own social and economic development objectives. The two-state study reported in this section took an empirical snapshot of the relations between social structure and political participation and found gender, landlessness and ethnic origin to be a factors of exclusion, but caste and size of landholdings not to be. As importantly, the study identified education and access to information as two factors which have the most important attributes determining a person’s inclusion in Gram Panchayat business. In addition to this it was clear that the returns to time invested in the Panchayat are very limited for poorer people – Gram Panchayats have few funds, there is little opportunity to determine how those funds are allocated, mechanisms of accountability are non-functional and, as yet, the GPs have little influence over the administration or line departments’ quality of service.

The study of seven states (Volume II) reinforced the findings of the study in MP and Rajasthan that currently most *panchayats* are ineffective. Three factors were identified: (1) political immaturity of the current *panchayat* system; (2) engrained social inequalities; and (3) flaws in the way states have designed their *panchayats* in the Conformity Acts. The study findings must though be seen in context. In many places elections have only been held once and full fiscal and administrative decentralization has yet to be realized. Much of the Indian literature argues that

the opportunities created by reservations and public participation will, over the longer term and when coupled with education and better access to information, ensure effective and inclusive self government.

6. THE ROAD AHEAD

Rural decentralization and PRIs are a profound change in the Indian rural institutional scene. They may offer a better option for rural development and poverty alleviation. Disadvantaged jurisdictions could be the main winners. They are an alternative to the unresponsive, rent-seeking, inefficient bureaucracy. PRI institutions are here to stay and there are powerful movements pushing the decentralization agenda forward. It is an important opportunity. But there are big risks also. Past attempts at decentralization failed in India, in part because of resistance of the vested interests of the bureaucracy and state level politicians. These vested interests remain. If not carefully designed, sequenced and implemented, decentralization can increase the fiscal burden on the states and lead to a break-down in service delivery, in particular to the poor. In this context the Bank can play a useful role.

5. An internal, cross sectoral, discussion of this Overview needs to take place in the Bank.

An event or meeting to discuss decentralization in general in India, the conclusions of this report, and in particular the recommendations below, should take place shortly. The discussion should focus on (a) potential role of the Bank in supporting PRIs, and (b) recommendations, if any, to the Government of India and State governments arising from this Overview.

6. The role of the Bank in supporting PRIs should be focused on reform states and the following activities (to be subject to internal discussion in the Bank):

- **Up-front with government on the role of the Bank on supporting the state's strategy for rural decentralization.**
- **Use statewide reform programs to further rural decentralization.** Rural decentralization needs to be fully considered in Bank supported statewide reform programs. **First** the Bank should engage state governments in repackaging some of the hundreds of schemes and programs assigned in principle to PRIs into a system of block, preferably untied grants. **Second** it should seize the space created to assist states in revisiting the revenue powers of PRIs and identify actions to improve own revenues, either through direct, assigned or shared taxation, and improved cost recovery. **Third** it should engage state governments on administrative reforms to effectively bring local administration under the control of PRIs. **Fourth** it should engage state governments in giving priority to issues of transparency and information related to powers and duties, rules and procedures, and fiscal flows, to all levels of government and the public at large.
- **Carry out analytical work on decentralization at the state level.** Two urgent areas for analytical work were identified. The **first** area is on fiscal decentralization. First there is no transparency whatsoever on fiscal flows to PRIs, nor on rules associated with those flows. Hence there is no basis on which to build a reform agenda. Second there is a need

to further the capacity of PRIs for local resource mobilization, but this requires detailed reviews of powers and obstacles to local taxation and cost recovery. These should be the basis of state focussed studies. The **second** area would be to assist state governments in determining the appropriate functional assignments of each level of PRI (District, Block and village). This work should draw on international good practice on sectoral assignments between levels of governments.

- **Support State level projects to build the capacity of PRIs.** Three types of lending operations to states would make sense in India at this stage. The **first one** would be focussed on decentralization reform management, and would be based on technical assistance, at the state or central level, namely to increase the transparency of the process and monitor what is happening. The **second one** would provide budgetary support to states to initiate a system of block and matching grants for PRIs, conditional on achievements on administrative and fiscal reforms. The **third one** would focus on PRIs and constituents. It would provide technical assistance to (i) enhance governance capacity; (ii) increase information to constituents; (iii) improve their capacity to collect local revenues; (iv) improve their capacity for service delivery; and (v) support democratic literacy and influence campaigns.

7. **The Bank should draw some recommendations from this overview to present to the Government of India and State governments.** The following are the recommendations suggested by the study team.

- GoI and state governments need to clearly define the roles and sectoral responsibilities of the three levels of PRIs, at the district, block and village levels, and endow them with the adequate capacity including resources to enable them to deliver services within their areas of responsibility. This must be done simultaneously on four fronts:
 - a. **First**, sectorally, states need to define functions of PRIs (district, block, village) according to principles of cost efficiency, resource allocation efficiency, distributive efficiency, and accountability, and using experience from other countries.
 - b. **Second**, on the fiscal front, the mechanisms for transfers to PRIs need to be redesigned to increase expenditure autonomy and reduce revenue dependency. States need to (a) increase the share of transfers to PRIs from state governments as untied grants, by (i) consolidating state schemes with broad rural development objectives into untied grants, as Kerala has done; (ii) making these grants a share of state revenues, (iii) explicitly defining through state legislation a formula to allocate grants to jurisdictions and PRI levels; and (iv) depositing the funds in bank accounts controlled by PRIs; and (b) based on population, poverty and efficiency, increasing the sources of own revenues of PRIs through own and assigned taxes and increasing their capacity to collect. The Center needs to modify CSS targeted at broad development by making them less tied, similarly to what has already been done with JGSY.
 - c. **Third**, on the administrative front, local civil servants need to be brought under the direct control of local bodies by making the latter responsible for conditions of service – salaries, promotions, discipline and transfers. At minimum, PRI heads should

write the ACR of the *panchayat* CEOs and each committee chairperson should initiate the ACR of the sector head at that level (e.g. district health officer, block education officer).

d. Fourth, on the political front, a number of procedures within PRIs need to be redesigned by (a) choosing the *sarpanch* by indirect election by the *panches* to make him/her accountable to them; (b) adopting voting rather than consensus as the means for making-decisions; (c) making the ZP chairperson the chairperson of the DPC (except in predominantly urban districts), (d) excluding state Ministers from DPC meetings, (e) not giving voting powers to MLAs, MPs, Collectors or CEOs in DPC meetings, and (f) excluding MLAs and MPs from *zilla* and block *panchayatis*.

- On **inclusion** there are no simple solutions. Decentralization challenges the very precepts of a highly stratified culture and thus both threatens perceptions of order in society as well as existing power relations. Continued support for effective access to basic education for marginalized people is prerequisite to more equitable participation in PRIs. Other actions which would improve inclusion are:

a. Support for democratic literacy or information drives, not just for elected representatives but also for the general electorate.

b. Establishing mechanisms and activities which ensure that existing instruments of accountability function as intended, such as: PRI and accountability monitoring systems, spot checks, effective social or development audits and placing annual appraisals of public servants' performance at least partially in the hands of citizens.

c. More immediately, representatives from different levels of PRIs (district, block and village) and representatives from special groups – women, backward castes and tribal people – need to increase their ability for collective action and public representation through their own organizations, both at the state and national levels. Building and support for such organizations, where local initiative is lacking, may best be done by non-government organizations. However, in the absence of these the administration could consider support for professional bodies of facilitators.

8. **The Bank should disseminate this Overview in India after it is duly reviewed.** There seems to be support for the observations and conclusions of the report, and in particular for going out with an independent, fairly critical, view of decentralization, since this could go a long way in broadening the quality of the dialogue between the various stakeholders in India. There is interest among donors, and the Ministry of Rural Development, in organizing a national workshop to discuss this report, as well as other reports developed by donors (e.g. United Nations Development Program) and government. Similarly, states have requested copies of the report, and state representatives should participate in the National workshop, or separate State workshops should be organized to ensure well informed discussions of the observations. Such workshops should include both representatives of state administration and local political bodies.

Following this Workshop this Overview (3 volumes) disseminated as a book.

7. BACKGROUND PAPERS

The following background papers were produced for this study:

Volume 2:

1. McLean, K. 2000. "Comparison of Decentralization in Seven States". July, Washington
2. McLean, K. et al. 2000. "Decentralization in Madhya Pradesh". Draft, April, Delhi. 21pp plus annexes.
3. Rajasehkar, D, Sitaram, S. and Vyasulu, V. . "Decentralization in Karnataka". Draft, April, Bangalore. 21pp plus annexes.
4. Rajasehkar, D. "Decentralization in Kerala". Draft, April, Bangalore. Xx pages plus annexes
5. Sitaram, S. 2000. "Decentralization in Andhra Pradesh". Draft, April, Bangalore, 58pp plus annexes.
6. Sitaram, S. 2000. "Decentralization in Maharashtra". Draft, April, Bangalore, 48pp. plus annexes.
7. Vyasulu, V. 2000. "Decentralization in Rajasthan". Draft, April, Bangalore, 33pp.
8. Vyasulu, V. 2000. "Decentralization in Uttar Pradesh". Draft, April, Bangalores, 25pp.

Volume 3:

1. de Souza, P. 2000. "Multi-State Study of Panchayati Raj Legislation and Administrative Reform". Final Report, February, New Delhi, 116pp.
2. Jha, Shikha. 2000. "Fiscal Decentralization in India". September, New Delhi.
3. Alsop, R., A. Krishna and D. Sjoblom. 2000. "Are Gram Panchayats Inclusive?". South Asia Social Development Unit (SASSD), Draft, March, Washington, DC, 137pp.
4. Mathew, A. 2000. "Annotated Bibliography of Key Literature". SRIJAN, Final Report, January, New Delhi, 48pp; "Catalogue of Literature on Rural Decentralization". SRIJAN, Final Report, January, New Delhi, 37pp; "Inventory of Organizations and Individuals Working in the Development of Panchayati Raj in India". SRIJAN, Final Report, January, New Delhi, 17pp; "Synopsis of Monitoring Systems of Rural Decentralization in India". SRIJAN, Final Report, January, New Delhi, 10pp.
5. Srivaramakrishna, S. 1999. "Panchayati Raj Institutions in India -- A Scoping Study for the World Bank" September 47pp

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ANNEX 1. SUMMARY OF DECENTRALIZATION BY STATE

Andhra Pradesh

Summary Table of State Decentralization for PRIs/Sectors/Schemes, By Dimension of Decentralization

PRIs/Sector/ Scheme	Decentralization Dimension	State Vision	Field Assessment
DPC/DDRC	Political	Yet to form DPC. The earlier DDRC exists with the Minister as the Chairman, MLA, MPS, as Members. The ZP chairman is made the vice-chairman, the state claims this as giving due importance to the PRIs	The ZP is assigned a role, the chairpersons authority and decision making power gets reduced in the presence of minister, MLAs and MPs
	Administrative	Collector is the member convener, assisted by the CPO. Reviews all departmental work.	Nowhere related to the PRIs. Also reviews the work of JB.
	Fiscal	Sanctioning body for project worth Rs.5 to 50 lakhs	-
	Accountability	-	-
ZP	Political	MLAs and MPs are ex-officio members but have no voting power. Opposed to 6 – tier system Direct elections of ZPTC members, overlaps the MPPs jurisdiction	The elected representatives are not in favor of MLA, MP representation in any capacity Similar to the state vision
	Administrative	Rural development & PR have been kept separate. RD needs special mechanisms The postings, promotions & staff of PR with ZP, under the control of ZP. Coordination work	The MLA's would have no role that is why the RD & PR are kept separate. Administrators are also not in favor of RD being a part of PR. Bureaucratic line of control, technically qualified staff non-existing, teachers are selected by the collector, PR & engg. Department with the line dept. Reviewing Mandal work. GP's are looked after by the collector
	Fiscal	Funds are transferred to the PR bodies. The ZPs can exercise their discretion in using them.	Dependent on the State and Center, funds are tied, scheme bound, no autonomy. Funds to the engg. Section directly.
	Accountability	Limited measures, the CEO is accountable to the ZP chairperson.	Line of control bureaucratic, the authority is from "above"
	Committees	7 standing committees, to deal with various subjects	The standing committees have very limited scope. Reviews the functioning of various departments.
MP	Political	MPTC role & jurisdiction overlaps with that of the <i>Sarpanch</i> MLA's are non-voting members	Same as in vision Majority against their presence, some consider it necessary to overrule the <i>Sarpanchs</i> presence

PRI/Sector/ Scheme	Decentralization Dimension	State Vision	Field Assessment
	Administrative	<p>The MPDO to work under the control of MPP.</p> <p>MPDO is answerable to the CEO</p> <p>Many wings with MPDO the functions of MP are consuming Development. Agri. and allied matters, Animal Husbandry, Health & Rural sanitation</p>	<p>MPDO executes the DRDA programs, MPs' support this.</p> <p>MPDO is indirectly answerable to the collector.</p> <p>Majority like Agri. Extension etc. are with the line dept., community development with DRDA.</p>
	Fiscal	The funds are released to the MP	Dependent on the State / ZP for fund flow. Tied funds, to follow prescribed guidelines, very little amount for development work.
	Accountability	MP has power to appoint staff	Limited power, cannot exercise any measure of accountability.
	Committees	<p>No standing committees at the MP.</p> <p>SHGs, MACs would motivate the women to join the political process</p>	<p>Three committees at the Mandal level – JB, Education & Health committee, all have the MPP as the chairperson Nodal officer has major role.</p> <p>SHGs have limited applications, cannot looked at as mass movement, motivating women to participate in the process of decentralization</p>
GP	Political	<p>Non party based elections, as per the amendment</p> <p>The GP functions as a body</p>	<p>All elected representatives have political party affiliations.</p> <p>The <i>Sarpanch</i> is equated with the body.</p>
	Administration	<p>Large number of GP's, makes it necessary to have a different line of control</p> <p>The EO's and <i>Sarpanch</i> work in harmony</p>	<p>The collector controls the GP's as they form important power ways.</p> <p>The <i>Sarpanch</i> would prefer to appoint the EO's, who are now appointed by the state.</p>
	Fiscal	GP's have taxation power, funds also flow from center and state	True. But need follow guidelines even for their funds. Difficult collect taxes, whatever is collected is insufficient to do devpt. Work spent on salaries etc. most of the amount relate to JGSY and 10 th finance commission
	Accountability	GS forms the base, acts as accountability to GP	GS held as JBGS, even the GP audited figures are read here. Non-clear whether PRGS are given due importance.

PRI/Sector/ Scheme	Decentralization Dimension	State Vision	Field Assessment
	Committees	<p>The act specifies for the formation of beneficiary committees and functioning committees. Civil servants of PR concede that they are not working.</p> <p>The <i>Sarpanch</i> finds representation in JB committees, thus strengthening their role.</p> <p>The various committees empower people; can be clubbed together to become a part of decentralized governance.</p> <p>Women of SHGs trained to enable them to contest the panchayat elections</p>	<p>Very true, many committees at the village, as a part of the JB program.</p> <p>The <i>Sarpanchs</i> do not have a major role; the nodal officer is in charge of the committees.</p> <p>Too many committees, created political employment, stakeholder are different, cannot be brought under a single umbrella.</p> <p>The SHG members do not think so.</p>
Sectors	Political	15 subjects transferred to the PR body.	Restricted to beneficiary selection.
	Administrative	Transferred personnel from the state	Line of control with the line departments.
	Funds	Budget allocations through the line dept.	True
	Accountability	Decisions by the PRI	Decisions by the state. Center & state sponsored programs
Schemes	Political	Spl. Schemes through panchayat and JB	Schemes through the corporations & JB PRI's only review.
	Administrative	The only program is to give salaries.	True, control by line departments.
	Funds	Scheme bound	True.
	Accountability	To follow guidelines	True.

Madhya Pradesh

Summary Table Of State Decentralization for PRIs/Sectors/Schemes, By Decentralization Dimension

Institutions	Dimension	State Vision	Field Assessment
DPC	Political	Bringing Government Closer to the people. Minister has authority to make quick decisions.	Minister, MLAs, MPs make arbitrary decisions and have completely usurped the powers of the ZP. Have completely undermined beneficiary selection of the GP, JP and ZP.
	Admin	With the Collector now Deputy Secretary to State Government, he is able to give administrative sanction up to 50 lakhs, thereby being able to respond quickly to local needs. In the past only the Collector had powers to transfer class 3 and 4 officers. Now power rests with DPC.	Collectors powers have increased vis a vis the PRIs. With the Minister, MLAs, and MPs, seen are bypassing local governments. Indeed collector able to respond to more petitions. True. However DPC it usually respects recommendation of Collector esp. on establishment matters—Collector retains administrative powers.
	Fiscal	State has deconcentrated schemes responsibility	As stated in vision.
	Account	New visibility of DPC increases bottom-up pressure from local populations.	Citizens have no greater leverage than before vis a vis the Collector and other district civil servants.
ZP	Political	MLAs and MPs are ex-officio members with no voting powers. ZP prioritizes beneficiaries based on established criteria. Empowered to make final selection.	MLAs and MPs presence overwhelms local politicians. Overpowering presence. ZP usurped. DPC is in charge.
	Admin	ZP has no formal role in implementation	True
	Fiscal	ZP entirely dependent on upon devolved funds. ZP advises state on development plans of GPs in the district.	No untied funds devolved to ZP. All funnelled through schemes. ZP advises DPC.
	Account	ZP President and members accountable to constituencies through vote.	Yes. However, with the lines between the ZP and DPC now blurred, difficult to establish role of ZP members in decisions emanating from the district.
Janpad	Political	JP co-ordinates the action plans of GPs and submits them to ZP for consideration.	True. However JP acts only as a post office. It takes no view on the feasibility or quantum of proposals.
	Admin	Power of transfer of class 3 and 4 staff rest with JP by law. JP also has some important functions under integrated rural development, agric., animal husbandry, adult education, primary health, and sanitation.	Now power to transfer usurped by the Minister and DPC. Not much evidence of this on the ground. However there were anganwadi teachers hired under the EGS scheme.
	Fiscal	No tax base. Dependent on transfers	True

Institutions	Dimension	State Vision	Field Assessment
	Account	JP better able to supervise teachers and with the power of transfer can hold them accountable	Don't have the power of transfer
GP	Political	Sarpanch directly elected to 5-yr term, Upa-Sarpanch indirectly elected.	True, as stated in the PRI Act. Places sarpanch above rest of GP, leading to some unilateral decision-making.
	Admin	GPs implement development works under 3 lakhs. Panchayat Secretary works for GP	Works most closely with the Sarpanch when hired by the Panchayat. In most cases, Panchayat Sec. Is low level functionary of state govt. Power relations with GP varies by personalities involved.
	Fiscal	GPs have powers of taxation.	Minimal powers of taxation. Revenue bases very small and tax collection negligible. Partly the result of GP reluctance to collect taxes.
	Account	<i>Gram Sabha</i> is a major mechanism of downwards accountability. Performs a social audit function.	The initial interest has waned owing to the fact that people's priorities are not given due importance. The Panchayat members also do not consider it necessary to attend GSs or discuss issues arising at the GSs in the GP meetings.
GS	Political	Identifies beneficiaries for various government schemes. Major	As stated in the vision.
	Admin	Implementation committees oversee works.	True for some schemes.
	Fiscal	Discusses development plans and objectives of the village.	True, but poorly attended. Most GS are scheme-bound and have better attendance because potential beneficiaries attend.
	Account	Sarpanch can be removed from office for failure to hold GS.	Except for the mandatory GS to audit/review the GP accounts, <i>Gram Sabhas</i> often not held, and sometimes fabricated by Sarpanches.
Sectors	Political	Several important functions have been devolved to PRIs about which they are empowered to make decisions.	PRIs not empowered to make any decisions about sector policies or priorities within their jurisdictions. No funds to implement their own negligible functions.
	Admin	PRIs have no formal role in sector service delivery outside of officially devolved functions	True.
	Fiscal	Sectoral line departments pay salaries and disburse plan budgets to their respective field offices.	True.
	Account	<i>Gram Sampark Abhigyan</i> (GSA), held every six months with senior state officials documenting local needs. Led by the Chief Minister.	Appears to be working very well as a mechanism to hold district and block bureaucracy accountable to their state level superiors for non-performance of duties.
Schemes	Political	Beneficiary selection done by the PRIs.	Initial selection yes, until DPC takes over.
	Admin	Schemes implemented by CEO ZP on behalf of the PRIs.	Mixed, but on the balance, implemented by CEO ZP in his capacity as Additional Collector for Rural Development (formerly Director DRDA).
	Fiscal	Quantum of funds determined by union or state governments	True
	Account	-	-

Maharashtra

Summary Table of State Decentralization for PRIs/Sectors/Schemes, By Dimension of Decentralization

PRI/Sector/ Scheme	Decentralization Dimension	State Vision	Field Assessment
DPC/DDRC	Political	The Palak Mantri heads the committee the ZP. Chairperson is a member along with the MLA, MLCs. The visionaries want ZP chairperson to head this committee The DPC has not reduced the role of the ZP but has not strengthened it either.	State's vision has not been implemented. DPC has already reduced ZP's importance. The chairperson fully sidelined.
	Administrative	CPO & collector play important role, also DRDA programs	Planning by this body. DRDA programs also.
	Fiscal	-	-
	Accountability	Palak Mantri is from another district altogether. His influence is reduced because of this.	Not true as seen when DPC was convened
ZP	Political	Training ground in politics, regular meetings, non-statutory meetings show the seriousness with which local governance is attempted	State politics trickles to lower levels also
	Administrative	Transferred staff from line depts.	All consider themselves as being on deputation. 2 lines of control.
	Fiscal	Transferred and agency schemes. Tied funds To reduce delays, the CEO can take decisions for sanctions worth Rs.6 lakhs.	Dependent on the State and Center, funds are tied, scheme bound, no autonomy. This is deliberately introduced to reduce the roles of elected representatives
	Accountability	Term on 1 year to short to hold chairpersons accountable CR of CEO by higher authorities.	True, want at least a two & half year term. ZP presidents want to write the CR of CEO.
	Committees	9 standing committees, to deal with various subjects. Further decentralization, have ushered in a committee system of governance.	Committees function well. Cannot be called the essence of PRI. Members want more powers.
PS	Political	PS given equal importance as ZP & GP. Rotation of seats for presidentship gives equal oppt.	Sitting on a horse, whip with someone else. Works suffers, slow phase, further slowed down as the officials use this as an excuse to delay work.
	Administrative	Co-ordination of work between line and ZP Dept. Organic linkages by Prabhad Committee	Many departments do not co-ordinate the local bodies, they remain outside the purview of PRIs. Working well, despite resentment expressed by the bureaucrats.
	Fiscal	Funds are transferred to GP's through PS Can use their own funds	Act like post-man Have to adhere to the guidelines.

PRI/Sector/ Scheme	Decentralization Dimension	State Vision	Field Assessment
	Accountability	Ama Sabhas like <i>Gram Sabhas</i> , with MLA heading it as an effective mechanisms The complaints against the officials by the elected representatives is taken seriously by holding departmental enquiry.	MLA's role reduces peoples participation. Limited results with only the administrators being questioned. Departmental enquiry is an eye wash, the holding or the results of which are not made known.
	Committees	No committees at the PS.	-
GP	Political	Non party based elections, as per the amendment Local needs and priorities gets reflected.	Party politics at the village getting accentuated. This does not always happen
	Administration	One EO to 3 or 4 GP's. Causes delays in implementation.	Found true in the field
	Fiscal	House tax has been increased to raise the revenue. GP's own resources are also channalised the new government program of <i>Gram Sachivalaya</i> .	Resented by many Members do not resent this.
	Accountability	GS forms the base, acts as accountability to GP	Beneficiary selection only, decisions on accountability remains inconclusive.
	Committees	Subject committees function well	Partially functioning or totally absent. Village education committee not attached panchayat work well
Sectors	Political	Subjects transferred to the PR body.	Only schemes and not subjects are transferred.
	Administrative	Transferred personnel from the state	Consider themselves as being on deputation
	Funds	Budget allocations through the line dept. as shadow provision.	True
	Accountability	Decisions by the PRI	Decisions by the state. Center & state sponsored programs
Schemes	Political	Spl. Schemes through panchayat.	State & Central government schemes.
	Administrative	Involved in implementing schemes	True.
	Funds	Scheme bound	True.
	Accountability	To follow guidelines	True.

Rajasthan

Summary Table Of State Decentralization for PRIs/Sectors/Schemes, By Decentralization Dimension: Rajasthan

<i>Institutions</i>	<i>Dimension</i>	<i>State Vision</i>	<i>Field Assessment</i>
DPC	Political	President ZP chairs	Just being set up--no local information about it
	Admin	Official is secy.	Being set up--
	Fiscal	none	To be seen
	Account	Co-ordinate for state govt.	Official dominated--planning dept approves plans
ZP	Political	Powers delegated to president ZP by PR dept--ZP president ex-officio chair of DRDA	Limited powers--project director DRDA and collector decide
	Admin	PD/DRDA is ex officio CEO, reports to ZP president--ACEO in day to day charge	All staff report to PD--only PD reports to president
	Fiscal	Limited powers, joint signatures for operating accounts	President does sign--guided by officials
	Account	Via elections, disciplinary action through official machinery, committee decisions	System barely operational yet--old ways continue, president complains that it is DRDA not ZP that is important--and DRDA is not elected
Panchayat Samithi	Political	Elected president in charge	Officials take decisions
	Admin	Writes ACR of BDO	Nominal--BDO in effective charge
	Fiscal	Co-sign cheques	System works as before
	Account	Elections/ disciplinary process via official machinery	Limited--PS members are unhappy --feel no role to play
GP	Political	sarpanch directly elected	Exercise powers on his own
	Admin	Supervises work at this level	Does have some influence via supervision of officials
	Fiscal	Co-sign cheques with secy.	Limited decision making
	Account	Committees to decide	Elections/ disciplinary process
GS	Political	Very important--innovation min ward sabha--given distances this is important	Barely meets--if meeting held, routine matters
	Admin	none	none
	Fiscal	Accounts are to be approved	Routinely done--not effective
	Account	High -basic unit of democracy	Ineffective, project frozen for 5 years--people see no point in attending
Sectors	Political	Implemented locally	Civil servants in control locally
	Admin	Powers delegated	Only nominally --civil servants almost autonomous
	Fiscal	Only on matters delegated	Very few items delegated
	Account	high	To the civil servants, not elected bodies
Schemes	Political	Few local schemes	Almost no local schemes
	Admin	Few via panchayats	Even the few vis PRIs are effectively controlled by officials
	Fiscal	As per norms	Norms rigidly applied
	Account	High for implementation	Rigid norms, little accountability locally

ANNEX 2. TABLES ON PRI FINANCES

Sources of Own Revenue of PRIs in Selected States (based on 1998-99)

	AP			MP			KE	RA			UP	
	GP	PS	ZP	GP	PS	ZP	GP	GP	PS	ZP	GP	ZP
OWN REVENUES	X	X	X	X	X	X	X	X	X	X	X	X
OWN TAX REVENUE	X			X	X		X	X	X		X	X
Property /House tax	X			x								
Profession				x								
Water Rate				x								
Lighting Rate				x								
Vehicle	X											
Agricultural land											x	
Drainage Tax				x								
Building Rent				x								
Entertainment					x							
Special Tax	X											
Rents	X											
NON TAX REVENUE/ USER CHARGES	X	X	X	X	X	X	X					X
Fairs and Festivals				x	x							x
Fishery Rental				x	x	x						
Bus Stand Fees		x		x								
Cart stand				x								
Ferry Service				x	x							
Obligatory Services					x							
Fines and Penalties				x								
Animal Registration				x								
Other fee/misc. non-tax				x		x						x
Interest				x	x	x						
(NFB) DRDA						x						
ASSIGNED REVENUE	X	X	X	X	X	X	X					
Profession Tax	X											
Surcharge on Stamp duty	X	x	x	x	x		x					
Local Cess	X	x	x	x								
Entertainment Tax	X	x										
Mines and Minerals				x	x	x						
Land Revenue				x			x					
Seigrorage fee												
SHARED REVENUE	X						X	X	X			
Motor Vehicle Tax	X											
Grant in aid in lieu of land revenue								x				

Note, Kerala PSs and ZPs and Uttar Pradesh PSs have no own revenues

Expenditure Decentralization for Rural Areas by Selected States

		1990-91	1991-92	1992-93	1993-94	1995-96	1996-97	1997-98	1998-99	1999-2000
Andhra Pradesh	Total, rural areas	100	100	100	100	100	100	100	100	100
	Center	43.9	42.2	42.6	43.9	44.4	43.9	43.2	44.0	40.1
	State	46.3	47.3	48.0	46.8	46.9	46.8	47.0	45.5	48.9
	PRI, total	9.9	10.6	9.4	9.2	8.7	9.3	9.9	10.5	11.0
	o.w. ZP	3.7	4.7	3.5	3.9	4.0	4.1	5.4	5.5	6.0
	o.w. PS	4.3	4.1	3.9	3.9	3.5	3.6	3.4	3.7	3.7
	o.w. GP	1.9	1.8	2.1	1.5	1.2	1.6	1.1	1.4	1.4
Kerala	Total, rural areas					100.0	100.0	100.0	100.0	100.0
	Center					40.8	39.4	37.1	37.6	34.2
	State					54.7	53.5	55.2	51.3	53.9
	PRI, total					4.5	7.1	7.8	11.1	11.9
	o.w. ZP					0.0	0.6	1.1	1.6	1.8
	o.w. PS					1.4	1.4	2.0	1.7	1.9
	o.w. GP					3.1	5.1	4.7	7.8	8.2
Madhya Pradesh	Total, rural areas				100.0	100.0	100.0	100.0	100.0	100.0
	Center				52.4	51.4	50.3	48.6	50.9	49.3
	State				45.1	45.1	45.2	42.0	42.3	43.7
	PRI, total				2.5	3.5	4.5	9.4	6.7	7.0
	o.w. ZP				0.0	0.4	1.1	3.9	2.3	2.4
	o.w. PS				0.1	0.1	0.5	1.8	1.2	1.2
	o.w. GP				2.3	3.0	2.9	3.7	3.3	3.4
Maharashtra	Total, rural areas				100.0	100.0	100.0	100.0	100.0	100.0
	Center				55.0	n.a.	55.4	54.7	51.5	56.2
	State				38.3	n.a.	36.2	36.8	40.2	35.5
	PRI, total				6.7	n.a.	8.4	8.5	8.3	8.3
	o.w. ZP				6.2	n.a.	7.7	7.7	7.6	7.5
	o.w. PS				0.0	n.a.	0.0	0.0	0.0	0.0
	o.w. GP				0.5	n.a.	0.7	0.7	0.7	0.7
Rajasthan	Total, rural areas				100.0	100.0	100.0	100.0	100.0	100.0
	Center				44.9	41.6	44.7	46.2	45.5	42.0
	State				51.8	54.2	50.7	50.0	50.3	53.4
	PRI, total				3.3	4.2	4.6	3.8	4.2	4.6
	o.w. ZP				0.1	0.1	0.1	0.1	0.1	0.1
	o.w. PS				3.2	3.6	3.9	3.2	3.5	3.7
	o.w. GP				0.0	0.5	0.5	0.5	0.6	0.8
Uttar Pradesh	Total, rural areas	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Center	52.9	50.2	53.8	54.6	54.3	54.7	54.3	54.8	52.6
	State	45.1	47.9	44.0	43.5	43.7	43.6	43.6	43.1	45.3
	PRI, total	2.0	1.8	2.2	1.9	2.0	1.7	2.0	2.1	2.2
	o.w. ZP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.4
	o.w. PS	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
	o.w. GP	1.9	1.7	2.1	1.7	1.8	1.4	1.7	1.6	1.6

PRI Budget Andhra Pradesh in 1998-99

	GP	PS	ZP	PRI	
	in million Rs.				%
Own tax	649			649	2.0
non tax revenue, user charges	403	59	176	637	2.0
assigned revenue	873	334	213	1420	4.4
shared revenue	75	415		490	1.5
General purpose grant	208	9973	208	10388	31.8
Specific purpose grant/salary grant	477		4860	5338	16.4
Grant for Development Purpose	878		3802	4679	14.3
SFC Grants			2022	2022	6.2
CSS/JRY	727	156	74	956	2.9
Loans from Governments (JRY)			156	156	0.5
Technical Assistance		114		114	0.3
Others			5786	5786	17.7
Total revenues	4289	11050	17297	32635	100.0
Total revenues in %	13	34	53	100	
General administration	715	10556	5014	16285	49.8
Salary of Panchayat Staff	477	10058	4860	15395	47.1
Terminal Benefits	238	397	153	788	2.4
Maintenance of Assets, others	0	101	0	101	0.3
Obligatory services	1279	364	3114	4757	14.6
Discretionary services	433	271	0	705	2.2
Grant from State Government	208	0	8913	9121	27.9
CSS/ JRY	727	156	0	882	2.7
TFC Grants	878	0	0	878	2.7
Other grants/water supply	0	64	0	64	0.2
Total Expenditures	4239	11411	17041	32690	100.0
Total Expenditures in %	13.0	34.9	52.1	100.0	

PRI Budget Kerala in 1998-99

	GP	PS	ZP	PRI	
	in million Rs.				%
Own tax	1076			1076	8.3
Non tax revenue, user charges	132			132	1.0
Assigned revenue	479			479	3.7
Shared revenue	459			459	3.5
Grants-in-aid from government	6062	1526	2406	9994	77.3
Loans from government		74		74	0.6
Others	595	123		718	5.6
Total revenues	8802	1723	2406	12931	100.0
Total in %	68	13	19	100	
General Administration	579	317	30	927	7.2
Salary of Panchayat Staff	369	291	18	679	5.3
Terminal benefits	45	18	3	66	0.5
Maintenance of assets, others	165	8	10	183	1.4
Obligatory services	1425	151	82	1658	12.8
Discretionary services	2	1	170	173	1.3
Expenditure on development grants	5943	1438	1504	8884	68.9
Repayment of loans	5	32	0	37	0.3
Any other expenditure	1080	39	104	1223	9.5
Total Expenditures	9033	1978	1891	12902	100.0
Total in %	70.0	15.3	14.7	100.0	

PRI Budget Madhya Pradesh in 1998-99

	GP	PS	ZP	PRI	
	in million Rs.				%
Own revenue	102	17	0	119	0.9
Non tax revenue, user charges	175	1562	6	1742	13.7
Assigned revenue	277	186	60	523	4.1
General Purpose Grant (SFC)	756			756	6.0
Specific Purpose Grant (SPC)	1891	56	15	1962	15.5
Grant for Development Purpose	0	107	250	357	2.8
TFC Grants	772	70	30	872	6.9
CSS	3348	428	1954	5730	45.2
Others	0	20	594	614	4.8
Total revenues	7321	2445	2909	12675	100.0
Total in %	57.8	19.3	22.9	100.0	
General Administration	848	1994	815	3657	23.7
Salary of Panchayat Staff	769	1953	787	3509	22.7
Terminal Benefits	23			23	0.2
Maintenance of Assets, Others	56	42	28	125	0.8
Obligatory Services	402	15	2092	2509	16.2
Discretionary Services	38	4		42	0.3
Grant from State Government	106	107		213	1.4
Specific Purpose Grant	1891			1891	12.2
TFC Grants	772	70	30	872	5.6
CSS, State	3446	428	1954	5829	37.7
Any other expenditure		56	379	435	2.8
Total Expenditures	7503	2674	5270	15448	100.0
Total in %	48.6	17.3	34.1	100.0	

PRI Budget Rajasthan in 1998-99

	GP	PS	ZP	PRI	
	in million Rs.				%
Own revenue	136	135	27	298	3.6
Shared revenue	171	9	7	187	2.3
General Purpose Grant (SFC)	278	11	2	290	3.5
Specific Purpose Grant (SPC)	316	44		359	4.4
State Government Grant		6450	72	6522	79.4
TFC Grants		531		531	6.5
CSS		25		25	0.3
Total revenues	900	7203	108	8211	100.0
Total in %	11.0	87.7	1.3	100.0	
General Administration	600	6844	86	7529	83.4
Salary of Panchayat Staff		6844	78	6922	76.6
Maintenance of Assets & Others			8	8	0.1
Obligatory Services		150	38	188	2.1
Grant from State Government (SFC)	533	54		587	6.5
CSS/ JRY		25		25	0.3
TFC Grants		531		531	5.9
Others	171	0	1	172	1.9
Total Expenditures	1304	7604	125	9032	100.0
Total in %	14.4	84.2	1.4	100.0	

PRI Budget Uttar Pradesh in 1998-99

	GP	PS	ZP	PRI	
	in million Rs.				%
Own revenue	42		600	642	5.8
Tax Revenue			56	56	0.5
Non Tax Revenue			544	544	4.9
Grants-in-Aid from State		737		737	6.6
SFC	2400			2400	21.6
Grant for Development Purpose	304		776	1080	9.7
TFC Grants	1519		380	1899	17.1
CSS/ JRY	4132			4132	37.3
Others			200	200	1.8
Total revenues	8397	737	1956	11090	100.0
Total in %	75.7	6.6	17.6	100.0	
General Administration	42		573	616	5.1
Salary of Panchayat Staff	5		473	478	4.0
Maintenance of Assets & Others	38		100	138	1.1
Obligatory Services	570			570	4.7
Grant from State Government	304		1156	1460	12.1
CSS/ JRY	4132			4132	34.3
TFC Grants	1514		424	1938	16.1
Others/devolved functions (SFC)	2400		185	2585	21.5
Training of PRI office Bearers	5			5	0.0
Total Expenditures	8967	737	2338	12043	100.0
Total in %	74.5	6.1	19.4	100.0	