



Munich Personal RePEc Archive

Poverty Reduction by Decentralisation: A Case for Rural Panchyats in Tamil Nadu

K. Jothi Sivagnanam

Department of Economics, University of Madras, Chennai 600005,
Tamil Nadu, India.

22. July 2007

Online at <http://mpa.ub.uni-muenchen.de/3210/>
MPRA Paper No. 3210, posted 22. July 2007

Indian Economic Association
90th IEA Annual Conference

25-27 October 2007

Poverty Reduction by Decentralisation
A Case for Rural Panchayats in Tamil Nadu

By

K. Jothi Sivagnanam
Reader
Department of Economics
University of Madras
Chennai- 600 005
jothisiva@netscape.net

University of Kashmir
Srinagar

Poverty Reduction by Decentralisation A Case for Rural Panchayats in Tamil Nadu

K. Jothi Sivagnanam

Abstract

An attempt has been made in this paper to study the linkage between decentralisation and poverty reduction with special reference to panchayati raj institutions in Tamil Nadu. The policy implication of the study emphasises that the process of decentralisation should be designed and implemented so as to achieve required reduction in poverty.

In the globalised era, decentralization has attracted significant interest in recent years. Decentralization is being seen as one of the missing institutional link between economic growth and distributive justice. Decentralisation is linked to poverty reduction in many ways. While decentralization has become a development strategy of many developing countries, its linkage to poverty reduction in particular has been the subject of recent time. In India, where social and rural sector are still backward and further affected by the ongoing liberalisation, privatisation and globalisation process, even high growth rates and innumerable poverty eradication schemes of the union as well as the state governments have failed to ensure distributive justice and left millions in sustained deprivation. Panchayati raj institutions could be a promising institutional link to combat poverty in terms of efficient designing and effective targeting.

Key words : Poverty Reduction, Decentralisation, Rural Panchayats, Tamil Nadu

JEL Classification : H75, 138, R 51

Poverty Reduction by Decentralisation

A Case for Rural Panchayats in Tamil Nadu

K. Jothi Sivagnanam

I Introduction

This paper attempts to study the relationship between decentralisation and poverty with reference to Tamil Nadu, a middle income state in India.

When the role of the *State* is being challenged by the neo-liberals in the globalised era, decentralization has attracted significant interest in recent years. Decentralisation towards 'local self governance' has acquired new attention first as a development strategy and then as an institutional necessity to combat poverty.

Decentralisation refers to downward transfer of functions, funds, functionaries and independent decision making powers to democratically elected local governments that are accountable and accessible to their citizens. The modern theoretical rationale for decentralization argues that public goods can be provided at local level in an efficient manner along with benefit-cost linkages. While the economist's rationale is instrumental, there are also ideological or political arguments for decentralization, which rest on democracy, participation, empowerment and governance. Poverty reduction means designing, implementing and targeting appropriate methods to ensure that scarce resources are allocated in such a way to get maximum impact on the poor and decrease their level of deprivation and vulnerability (Sen, 1999; World Bank, 2001).

Decentralisation is linked to poverty reduction in many ways. While decentralization has become a development strategy of many developing countries, its linkage to poverty reduction in particular has been the subject of recent time. In India, where social and rural sector are still backward and further affected by the ongoing liberalisations, privatisation and globalisation process, even high growth rates and innumerable poverty eradication schemes of the union as well as the state governments have failed to ensure distributive justice and left millions in sustained deprivation. Panchayati raj institutions could be a promising institutional link to combat poverty in terms of efficient designing and effective targeting.

The paper aims to examine the relationship of decentralisation to poverty reduction with reference to Tamil Nadu in the light of the theoretical works. The resultant policy implication emphasises that the process of decentralisation should be designed and implemented so as to achieve required reduction in poverty.

The paper has been structured as follows. Section II briefly describes the significance of local government in terms of economic and political theories and then in terms of its linkages to poverty reduction. Then ever elusive growth-poverty linkage in India and the emerging emphasis for a 'inclusive growth' strategies are discussed in Section III followed by a brief review of the practice of local government in Tamil Nadu in Section IV. Section V argues the case for the critical role of rural panchayats in poverty reduction in Tamil Nadu in light of the present practice. Finally, Section VI presents the conclusion.

II Theories of Decentralisation

The economic efficiency and welfare gains from decentralisation are normally considered with reference to the deadweight losses that result from centralisation (Oates, 1972). Public goods can be provided to meet the diversified needs of the people across all sub-central units in a cost-efficient manner through proper decentralization (Tiebout, 1961; Oates, 1972; Musgrave, 1983). Then decentralisation can act as a surrogate for market discipline and ensure efficiency in the production of public goods (Tiebout, 1956). Thus, decentralisation is an optimal form of public sector organisation combining a centralised and decentralised decision process so as to be able to provide public goods in accordance with the diversified preferences of the residents in different regions while at the same time reaping the gains of economies of scale.

Different public goods have different spatial characteristics and the areas of benefits of many activities are much smaller than the entire country. Most public goods directly affect only the persons in local or regional level and the gains from decentralisation therefore are much greater, the greater the diversity in preference levels among persons in various areas. Thus the governmental activities can't be adjusted separately for each person on the basis of that person's preference schedule but each local unit can adjust the level of its activity to meet the preferences of its residents. Otherwise, persons may tend to migrate in those local units that provide the

mixture of activities and taxes they prefer (Tiebout Effect). Hence the decentralisation theorem suggests that services which are nationwide in their benefit incidence (like defence) should be provided nationally, services with local benefits (like street lights) should be provided by local units and still others (such as highways) should be provided for on a regional basis (Musgrave and Musgrave, 1989). From this perspective poverty reduction ought to be the function of the lowest tier.

At local level, more effective collective decision-making and greater popular control can be exercised over the precise manner in which the services are provided. Hence, the local authorities can play a vital role in poverty eradication.

Among these roles, the principle of benefit region holds more significance because the benefit incidence of various social goods is subject to spatial limitation and therefore, each service should be decided upon and paid for within the confines of the jurisdiction in which the benefit accrues. This linkage between the decision to spend and that to raise resources would help to fiscal discipline and accountability among the sub-central units.

There are three governmental functions visualised by Musgrave (1959) viz. allocation, stabilization and redistribution. Traditionally, the general consensus seems to be that sub central authorities may have a significant role to play in the allocation function, that they will have little or no part to play in the distribution function and that they will have no part at all to play in the stabilization function (Musgrave, 1965; Oates, 1972, 1977; King, 1984). However, the experience and the consequent modern literature have brought considerable change in the reasoning and argued that the sub central tiers have significant role in redistribution. It is shown that local governments are expected to and actually can play an important role in designing and implementing poverty alleviation strategies (Ladd and Doolittle, 1982; Brown and Oates, 1987).

Decentralisation, Democracy and Empowerment

While the economists' rationale is instrumental, there are also political arguments for decentralisation, which rest on democracy, participation, empowerment and governance. Inman and Rubinfeld (1997) argue that good governments are those which are closer to the people. Since J.S.Mill, this justification has been closely related

to issues of people's participation and democracy (Litvack, Ahmad and Bird, 1998). Thus decentralisation supports democratisation by allowing people or elected representatives to command more power in public policy decision-making. Such decentralised democratic decision-making ensures welfare of all those who are likely to be affected by such decisions. This basic rationale is derived from the participative democratic imperative that all people whose well-being are affected by decisions ought to participate in such decision making process. When everybody participates, self-interest will guide him or her to arrive at decisions that are consistent with collective well being. Crook and Manor (1998) summarise the case: ' decentralisation combined with democratisation (usually in its electoral representative form) might provide greater transparency, accountability, responsiveness, probity, frugality, efficiency, equity and opportunities for mass participation'.

Decentralisation also opens a wider political space for weaker and vulnerable sections to act upon and paves way for their empowerment. Empowerment emanates from participation. Democratic decentralisation, by making participation easier, makes empowerment more feasible at the local level than it would be at the national level, especially for minorities and vulnerable groups (Blair, 1997). In India, most of such communities are weaker economically, socially and politically but not numerically. Decentralisation provides them newer and wider political space to act upon collectively towards their well-being.

Decentralisation – Poverty Linkages

According to the literature (Bird, *et. al.*, 1995; Bird and Villancourt, 1998), there are many specific ways through which decentralisation enters into the strategies of poverty reduction. First, effective implementation of poverty reduction strategies, any other public services for that matter, often requires detailed and specific local knowledge. The local knowledge can be obtained most readily and accurately through a decentralised system of governance than that of a centralized one. Further, the proximity of policy implementers to the target groups reduce information and transaction costs of identifying the poor and helps in designing potentially successful 'capacity improving' and 'safety net' policies' (Rao, 2002).

Given the assumption that people should get their choice rather than the choice of someone else sitting in a far off place, public expenditure programmes including that of poverty reduction, can be designed in tune with the local variations in preferences. By doing so, decentralised provision of public goods can enhance efficiency and achieve welfare gains (Oates, 1999). From this perspective, decentralisation is good in principle and this virtue depends upon political accountability and the inevitable need to strengthen local delivery capacity (Ayee, 1996; Bird and Rodriguez, 1999; Crook, 2003).

Delegating decision making-powers and adequate resources to the locally elected representatives may also lead to better and efficient targeting of the really deserving poor, and ensure accountability. Democracy is one basic institutional system that ensures accountability of the elected representatives to the public. Above all, according to the literature, accountability is ensured by ‘matching principle’

It means linking the decision to spend with responsibility to raise resources and it is expected to bring accountability and efficiency in resource allocation. Ideally to the extent possible, benefit areas should be matched with financing areas, expenditure responsibilities should be matched with revenue resources and revenue capacities should be matched with political accountability (Bird, 2002). The local governance system could also help avoid wastages particularly when the decisions to spend and tax are closely related. Finally, decentralisation can help reduce poverty by efficient targeting of poverty combating public investment.

III Ever Elusive Growth-Poverty Link in India

The Union and State governments have pumped several billions of rupees in the name of poverty eradication schemes and failed to lift everyone even after sixty years of efforts, strategies and schemes. The failure of the developmental state in reducing poverty was seen in terms of its insensitivity, casualness, lack of accountability and inertia of the delivery process. Thus, centralized planning, both at New Delhi and Chennai and the mind-boggling proliferation of poverty eradication schemes had not solved the basic problems of poverty, unemployment and inequality. The neo-liberal policy prescriptions in general and fiscal consolidation in particular

have squeezed public expenditure on many crucial sectors and the poverty levels continued.

The 'trickle down' theory failed miserably and nothing has 'trickled down' even at 8-9 percent growth rates witnessed in recent years. More than 300 millions of Indian people are continued to remain in deprivation (NSS, 61st Round) inspite of the fact that the country has been elevated to higher growth trajectories. Sen's capability approach and UNDP's sustained effort have also succeeded in de-emphasising the growth centered approach and succeeded in promoting 'human development' as the cardinal development objective.

These trends have forced the policy makers in the developing countries to reconsider their growth centered approach. It also helped to renew our focus on poverty reduction with new strategies. Decentralization is being seen as one of the missing institutional link between growth and distributive justice. Decentralization and poverty reduction are the two policy focuses that significantly influenced the developmental discourse of many developing countries in recent times.

At the international level, the central focus of World Development Report 2006 is the 'pursuit of equality of opportunity while avoiding extreme deprivation'. The Planning Commission of India in its Approach Paper to Eleventh Plan declared, though without specific strategy, 'inclusive growth' as its plan objective. The State Planning Commission of Tamil Nadu has come out with a "technically sound approach ... to place importance on the "growth process" alongside the growth rate' (K. Jothi Sivagnanam, 2006).

Thus, poverty reduction became the 'inevitable' objective of many developing countries and international agencies. Though many of them have announced 'prop-poor' /'inclusive growth' policies, their effectiveness is doubtful in the absence of concrete strategies. Against this backdrop, the linkage between decentralisation and poverty reduction in Tamil Nadu is examined.

IV New Local Governments in Tamil Nadu

In India, Panchayat Raj Institutions (PRIs) are the institutional expression of the local governments. In Independent India, rural development acquired marked

focus and became the part of the overall development strategy. Thus rural development, as a strategy, includes improvement in the quality of life of rural masses through better infrastructure in terms of health, education, drinking water, roads, housing, sanitation, electricity, etc. That is, local rural communities were both the basis and object of rural development; and participation became an appropriate development strategy and panchayats the necessary institutional agencies. PRIs are seen mainly as a means to rural development. That is justifiable even today because 742 million (72.2 per cent) Indian people (Census 2001) still dwells in rural areas. The 73rd Constitutional Amendments marked the beginning of the new third tier of government with constitutional status.

The Tamil Nadu Conformity Act 1994' has a three-tier system on the rural side with a village panchayat at the grass root level. It introduced direct election, State Finance Commission, State Election Commission and reservation for SC, ST and women.

Functions

The Constitutional Act listed 29 subjects such as agriculture, small scale industries, rural housing, drinking water, poverty alleviation, education, health and social welfare. The state Act assigned similar subjects for panchayats, but has avoided any reference to 'self government'. The crucial challenge is the *inter se* distribution of 29 functions among the various tiers of panchayats and a meaningful coordination there of.

The Jain Commission (1997) appointed by the state government had proposed inter-tier allocation of the 29 subjects. However, the opposition and panchayat representatives, have demanded powers, functions and finances as per 73rd Act. The government constituted a High Level Committee which submitted 1209 recommendations but the government accepted only 718 of them. In the final tally, the works actually assigned to the village panchayats are mostly civic amenities and not developmental in nature.

There are 12 618 village panchayats in the state and per district average is 435. The Village Panchayat President is given very meagre funds and staff. Most of such functions were assigned only by Government Orders. This leaves a great deal of

discretionary powers to the state and district administration rather than to the elected president.

Funds

Assignment of adequate resources to the lower tiers in Tamil Nadu is a vexing issue since 1996. It is evident from the theory as well as the experience of neighbors (Kerala and Karnataka) that panchayats, if assigned powers and funds, can perform really well on poverty reduction, primary education, health, civic amenities and rural development as whole. For such an effective and meaningful functioning of panchayat raj institutions, it is necessary to devolve required resources to perform the functions assigned. The fiscal support from higher tiers deserves added significance in lieu of the fact that rural local government have not been assigned any elastic own revenue source. Though the TNP Act assigned taxes, fees and duties and grants for village panchayats, their total revenue potential is very meagre that most of them are unable to pay even the electricity bill and staff salary.

The First State Finance Commission (SFC) has recommended 8 per cent of state tax revenue for the first year and 1 per cent increase for every subsequent year. However the state government has accepted only 8 per cent for all the years. The Second SFC has retained the 8 per cent.

The SFC grant is Rs. 1224.76 crores in 2006-07. Rs 710 crore (58 percent) is devolved for the two rural tiers and per district share comes to Rs. 24.5 cores. If this amount is shared among 435 village panchayats and 32 blocks per district by any reckoning, one can imagine what will be left to one village panchayats. The Union Finance Commission grant for the year 2006-07 is a just Rs. 174 crores.

Total transfers including assigned and own revenue of the local government is not even two percent of the NSDP in the state. The SFC transfer alone in terms of the revenue receipts of the state is just around five percent. While the SFC's grant is below 0.7 per cent of NSDP, the union finance commission's transfers is pathetically very low at 0.1 per cent of NSDP. The own and assigned revenue of the local government is at around 0.3 per cent is also a cause of serious concern. Thus, the size of the local governments is insignificant and support of the state and the union is inadequate.

V Poverty Reduction Schemes

However, there are innumerable state and centrally sponsored schemes (CSS) for poverty reduction and rural development for which the state continue to engage only the district administration rather the democratically elected local government institutions. For instance, the revised budget estimate is Rs. 3, 279. crores for rural development and panchayati raj institutions during 2006-07. Out of which Rs 3, 215 crores have been provided for state and centrally sponsored schemes including that of part two schemes. While the Union and State governments have designed these schemes and issued guidelines, the District Collector (as Chairman DRDA and Inspector of Panchayats for all the tiers), the Project Officer DRDA, BDO (as the executive authority for the village and block level panchayats) administer almost all those schemes.

The 'local self-governments' are expected to design and execute their own schemes of 'economic development and social justice'. But in Tamil Nadu, as in many other states too, they have no schemes of their own but only witnessing schemes imposed from higher tiers and executed under the total control of district administration. It is evident from the theoretical discussion that local governments are the missing institutional link to reduce poverty.

One of the reasons for such lack of state government support to panchayats is the charge about the level of local corruption. Rao (2002) argued that it is an empirical issue and *a priori*. It is not possible to conclude that local government officials and politicians are more corrupt than those of the central government. Thimmaiah (2002) also argued that corruption is such a universal phenomenon that can be used against all tiers and forms of government. At the local level, transparency is forced on the functioning of the locally elected representatives and bureaucrats. It is easy for the local people to identify and expose corruption.

VI Concluding Remarks

Nothing wrong in being an optimist, but expecting, as our Constitution does, 'to ensure economic development and social justice' and 'self-government' is over ambitious at this stage. What one can look for, reasonably now is completing the

institutionalization fully. Then, at least some basic minimum services like water, primary education, primary health care and above all poverty reduction have to be ensured through local government. For which, the local government should breath. Commitments of the state government and assured regular flow of funds are the necessary and essential conditions for that. The state Act needs to be redesigned to implement all the poverty eradication schemes. The district administration can extend technical and capacity building supports. Village assembly needs to be strengthened to ensure accountability.

Considering the present pathetic fiscal health of the state governments, it is the responsibility of the Union to take required initiative. As local governments became a constitutional mandate, the Union government should come forward to make regular transfers, of course not directly to the local government but via the state governments. Further, all the centrally sponsored poverty alleviation, rural employment schemes should be transferred to the local governments.

[I thank Dr. V. Loganathan, Emeritus Professor of Economics, 278 11th Street, TNHB Colony, Koratoor 600 080 for his comments and suggestions.]

References

- Ayee, J.R.A. (1996), 'The Measurement of Decentralisation: The Ghanaian Experience', *African Affairs*, vol. 95, no 378.
- Bird, R.M., (1978), *Intergovernmental Fiscal Relation in Developing Countries*, *World Bank Staff Working Paper, No.304*, Washington, D.C.
- Bird, R.M. et al (1995), *Intergovernmental Fiscal Relation and Poverty Alleviation in Vietnam*, *Policy Research Working Paper 1430*, East Asia and Pacific, Country Department 1, Country Operations Divisions, World Bank, Washington, D.C.
- Bird, R.M., (2002), 'Intergovernmental Fiscal Relations: Universal Principles and Local Applications' in M. Govinda Rao (ed).
- Bird, R. and Rodriguez E.R. (1999), 'Decentralisation and Poverty Alleviation: International Experience and the case of Philippines', *Public Administration and Development*, vol. 19.
- Bird, R. M. and Francois Vaillancourt (Eds.) (1998), *Fiscal Decentralization in Developing Countries*, Cambridge University Press, Cambridge.
- Blair, Harry (1997), *Spreading Power to the Periphery: An assessment of Democratic Local Governance*, Center for Development Information and Evaluation Bureau for Policy Planning and Coordination, USAID , Washington, DC.
- Brown, C. and Oates W.E. (1987), *Assistance to the Poor in a Federal System*, *NBER Working Paper 1715*, Cambridge.
- Crook, Richard C. (2003), 'Decentralisation Poverty Reduction in Africa: The Politics of Local-Central', *Public Administration and Development*, vol. 23.
- Crook, Richard C. and James Manor (2001), 'Democracy and Decentralisation in Karnataka' in Jayal, Niraja Gopal (Ed) *Democracy in India*, Oxford University Press, New Delhi.
- GOI (2006), *Towards Faster and More Inclusive Growth: An Approach to the 11th Five Year Plan*, Planning Commission, New Delhi.
- Government of Tamil Nadu (1997), *Report on the Entrustment of Powers to Panchayats*, (Chairman: L.C. Jain), State Planning Commission, Government of Tamil Nadu, Chennai.
- Government of Tamil Nadu (1999), *Democratic Decentralisation: Powers Entrusted to Panchayati Raj Institutions*, (Chairman: Ko. Si. Mani), State Planning Commission, Government of Tamil Nadu, Chennai.

- Inman, Robert P. and Daniel L. Rubinfeld (1996), 'The Political Economy of Federalism', in Dennis C. Muller (ed) *Perspectives on Public Choice*, Cambridge University Press, Cambridge.
- King, David (1984), *Fiscal Tiers: The Economics of Multilevel Government*, George Allen and Unwin, London.
- Ladd H.F. and Doolittle, F.C. (1982), 'Which Level of Government Should Assist Poor People', *National Tax Journal*, Vol. 35.
- Litvack J, J Ahmad and R Bird (1998), *Rethinking Decentralisation in Developing Countries*, The World Bank, Washington, D.C.
- Manor, James (1997), *The Promise and Limitations of Decentralization*, Technical Consultation on Decentralization, Draft, World Bank.
- Musgrave, R.A. (1959), *The Theory of Public Finance*, George Allen & Unwin, London.
- Musgrave, R.A. (1965), *Essays in Fiscal Federalism*, Brooking Institution, Washington, D.C.
- Musgrave, R.A. and Musgrave, P.B. (1989), *Public Finance in Theory and Practice*, McGraw Hill, New York.
- Musgrave, R.A. (2005), 'The nature of the Fiscal State: The Roots of My Thinking', in Amaresh Bagchi (ed) *Readings In Public Finance*, Oxford University Press, New Delhi.
- Oates, Wallace E., (1972), *Fiscal Federalism*, Harcourt Brace Jovanovich, New York.
- Oates, W.E. (ed) (1977), *The Political Economy of Fiscal Federalism*, Lexington Books, Lexington.
- Oates, Wallace E., (1999), 'An Essay on Fiscal Federalism', *Journal of Economic Literature*, Vol.XXXVII, September.
- Prud'homme, Remy, (1995), 'On the Dangers of Decentralization', *World Bank Research Observer*, Vol. 10, No.2.
- Rao, M.G. (2002), 'Poverty Alleviation and Decentralisation' in M.G. Rao (ed).
- Rao, M.G. (2002), *Development, Poverty and Fiscal Policy*, Oxford University Press, New Delhi.
- Sen, Amrtya (1999), *Development as Freedom*, Oxford University Press, New Delhi.
- Sivagnanam, K. Jothi (, 2006), 'New Approach to Planning in Tamil Nadu: Targeting the Growth Process', *The Business Line*, December 29.

- SPC (2006), *Approach to the 11th Five, State Planning Commission*, Government of Tamil Nadu, Chennai.
- Tanzi, Vito (1996), Fiscal Federalism and Decentralisation: Some Issues of Efficiency and Macro Economic Aspects", in Bruno M and B. Pleskovic (eds.), *Annual World Bank Conference on Development Economics*, Washington, D.C.
- Tiebout, C.M. (1956), 'A Pure Theory of Local Expenditures', *Journal of Political Economy*, Vol.64, No.5.
- Thimmaiah, G. (2002), 'Making PRIs and ULBs more Autonomous and Effective' in M. Naganathan and K. Jothi Sivagnanam (ed.) *Decentralised Development: The Tamil Nadu Experience*, Planning Commission's Unit, University of Madras, Chennai.
- World Bank (2001), *Attacking Poverty: World Development Report 2000/2001*, Oxford University Press, New Delhi.
- World Bank (2006), *World Development Report 2006: Equity and Development*, Oxford University Press, New Delhi.