



Decentralisation, Administrative Capacity and Trust: Debating the Status of House Tax Collection in Madhya Pradesh and Tamil Nadu, India

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language]

Abbreviations and Glossary

AD (P)	Assistant Director (Panchayat)
AIADMK	All India Anna Dravida Mukta Khazhagam
BDO	Block Development Officer
BDO (BP)	Block Development Officer (Block Panchayat)
BDO (VP)	Block Development Officer (Village Panchayat)
BJP	Bharatiya Janata Party
CEO (JP)	Chief Executive Officer (Janapad [block] Panchayat)
CEO (ZP)	Chief Executive Officer (Zilla [district] Panchayat)
CPI (M)	Communist Party of India (Marxist)
CRISIL	Credit Rating Information Services India Limited
CSS	Centrally Sponsored Scheme
DMK	Dravida Mukta Khazhagam
DRDA	District Rural Development Agency
RLEGP	Rural Landless Employment Guarantee Programme
DfID	Department for International Development, Government of United Kingdom
EFC	Eleventh Finance Commission
EGS	Education Guarantee Scheme
EO (P)	Extension Officer (Panchayat)
GOI	Government of India
GOMP	Government of Madhya Pradesh
GOTN	Government of Tamil Nadu
IAAP	Intensive Agricultural Area Program
IADP	Intensive Agricultural Development Program
IAS	Indian Administrative Services
IAY	Indira Awaz Yojna (Indira Voice (rural housing for the poor) Project)
ICS	Indian Civil Services
IMF	International Monetary Fund
IRDp	Integrated Rural Development Programme
ISC	Inter State Council
JBIC	Japan Bank for International Cooperation
JRY	Jawahar Rozgar Yojna (Jawahar Employment Scheme)
LTTE	Liberation Tiger of Tamil Eelam
MLA	Member of Legislative Assembly
MOU	Memorandum of Understanding
MP	Madhya Pradesh
MP	Member of Parliament
MPLADS	Member of Parliament Local Area Development Scheme

NGO	Non Governmental Organisation
NIRD	National Institute of Rural Development
NPM	New Public Management
NREP	National Rural Employment Programme
OBC	Other Backward Classes
PRI	Panchayati Raj Institution
PSEO	Panchayat Social Education Officer
SC	Scheduled Caste
SFC	State Finance Commission
SGRY	Sampoorna Gramin Rozgar Yojana (Universal Rural Employment Program)
ST	Scheduled Tribe
TDP	Telugu Desam Party
TFC	Twelfth Finance Commission
TN	Tamil Nadu
TOR	Terms of reference
ULB	Urban Local Bodies
VP	Village Panchayat

<i>ryotwari</i>	land revenue system in which revenue administration levied directly from <i>ryot</i> (cultivator)
<i>zamindar</i>	landlord
<i>malguzari</i>	landlord
<i>tehsildar</i>	sub-district revenue officer
<i>karnam</i>	village secretary
<i>Gram Sevak</i>	village level worker (introduced under Community Development programme)
<i>Gram Sabha</i>	all villagers' council
<i>Gram Swaraj</i>	village self-rule, village autonomy
<i>panchayat samiti</i>	block level panchayat
Lok Sabha	Lower House of the Parliament
Rajya Sabha	Upper House of the Parliament

Introduction

1. Background

1.1 Decentralisation in India

The last decade has seen the culmination of or the 'fever' for decentralisation in many Third World countries (Harriss 2002: 71). Economic reform programmes, across the world since the 1980s, have increasingly been debated in terms of fiscal restraint and/or the idea of decentralisation (Mackintosh and Roy 1999). The failures of centralised planning and the collapse of many erstwhile communist countries since the late 1980s gave further impetus towards promoting decentralisation as an alternative to centralised governance (Crook and Manor 1998). The current reform process in India is also very much part of this enthusiasm for decentralised governance.

The focus of attention in this study is on decentralisation to the local self-government. The 73rd Constitutional Amendment, enacted by the Indian parliament in 1993, marked a significant watershed in terms of advancing the goal for decentralisation and development of rural local self-government; namely, the Panchayati Raj Institutions (PRI, Figure 0.1). The significance of the 73rd Constitutional Amendment lies in the fact that it was the legislative changes of which the central government took the initiative and the State¹ governments agreed and followed. Since decentralisation below the State level is provided in the Constitution as falling within the jurisdiction of the State, the structures and functions of PRI in each State have varied significantly. Many States, especially those governed by the party that was in opposition at

¹ In this thesis, the word 'state' with small 's' denotes the government in general, and 'State' with capital 'S' denotes the province comprising the federation of India.

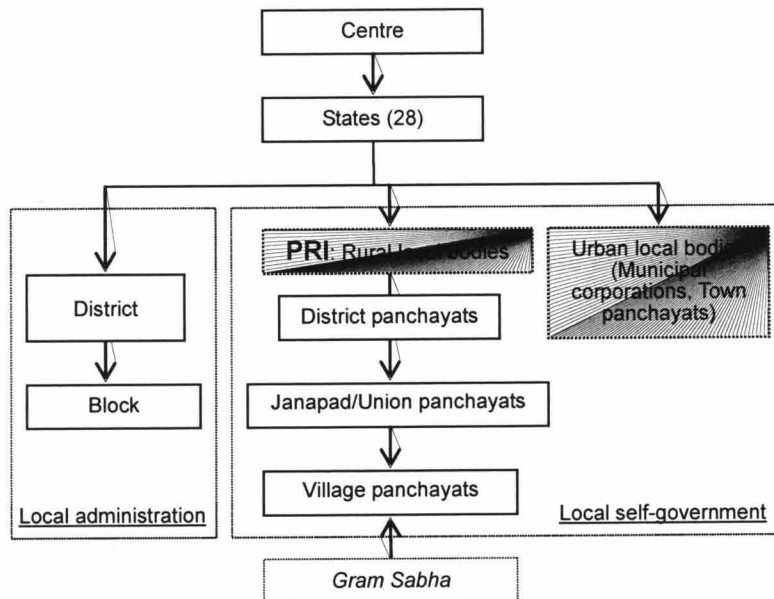


Figure 0.1: Structure of PRI

the Centre were reluctant to implement the decentralisation reforms suggested by several committees set up in the 1970s and 1980s by the central government. Such reform attempts were often considered by these States as mere intervention by the Centre. Thus, while PRI has existed in many parts of the country even prior to the Amendment, its function as a democratic local self-government was very much restricted often without regular elections and substantial financial resources. The 73rd Constitutional Amendment for the first time in Indian history guaranteed PRI the position as a ‘third tier’ of government in the federal structure; to be enabled with regular elections, legitimate resources and administrative functions.

The history of decentralisation policy in India for developing the rural local self-government goes back to the late nineteenth century under the colonial regime as will be discussed later on in Chapter 1. In the history of repeated attempts for reform up to the most recent one in the 1990s, different

political leaderships have had different motives and given different impetus to such kinds of reforms. The discourse of the reform currently prevalent in India, however, unsurprisingly embodies the ideas widespread in the literature of international policy documents, as shall be indicated below. While most prevalent discourses on the subject tend to emphasise economic incentives and often suggest the reduced role of the state, decentralisation reform in India or in any country for that matter necessarily involves an understanding of the political motives of the regime which may or may not correspond with such incentives and expected outcomes. This seeming gap between the current discourse and the historical as well as the political context of the reform in India provides the background of this thesis.

1.2 What is Panchayat?

PRI refers to the rural local bodies comprising three levels of local self-government, namely, at the district, block (Janapad/Union) and village level (Figure 0.1). The thesis gives specific focus on the local self-government at the village level, that is, the panchayat. The term *panchayat* originates from the traditional village institution composed of five (*panch*) elders, but the origin of panchayat as being used synonymously as local self-government can be found in the decentralisation reforms during the colonial rule as shall be discussed in Chapter 1. The panchayat is usually composed of one or more villages² and its population varies roughly from several hundred to less than ten thousand. The panchayat as a self-government institution consists of the

² The term 'village' in this thesis signifies administrative unit of village, which defers from and is larger than the so-called 'natural village.'

president, ward representatives, the secretary, and several other employees³. While the former two positions are elected by the State-wise election held once in five years, the latter two positions are appointed by the panchayat. The number of panchayats in India is currently 234,676 and that of panchayat representatives is 2,073,715.⁴

One of the landmark provisions of the 73rd Constitutional Amendment is that it provided not only for regular elections for PRI but also for seat reservations for the weaker sections of society, namely, Scheduled Castes (SC), Scheduled Tribes (ST) and women. In a highly segregated society on the lines of caste, religion and gender as in India, political empowerment of the weaker sections through seat reservations for elections, educational institutions and public administration has increasingly become a strong demand.⁵ The fact that these arrangements were extended to the administrative level much closer to the rural population, comprising about 70% of the entire population of India, is in itself considered to be the largest achievement of the 73rd Constitutional Amendment. Perhaps for this reason, many studies have focused specifically on the democratic functioning of the PRI.⁶ On the other hand, however,

³ Employees of the panchayat can vary depending on each panchayats, but they may typically include sweepers and engineers for water tank maintenance.

⁴ The figure is based on GOI (2006).

⁵ Recently in June 2006, the proposal by the central government to expand preferential admission to the SC, ST and Other Backward Castes (OBC) to the private educational institutions drew much attention and there were large scale demonstrations for and against such proposals in many parts of the country.

⁶ Out of numerous studies based on one State, special mention is required for the case studies of Lieten and Srivastava (1999) and Pai (2004) in Uttar Pradesh, Isaac and Franke in Kerala (2000) and Webster in West Bengal (1996). The study by Lieten and Srivastava on the PRI in Uttar Pradesh is based on a thorough examination of the socio-political relationship in the six village panchayats (1999). Mapping out the intra village relationship based on caste and land ownership, authors discuss that the current PRI tends to function in a way in which it aggravates the position of the weaker sections in the villages rather than mitigating inequality. Authors argue that resources of panchayats tend to be allocated only among upper castes in the absence of proper transparency and accountability in the allocation processes (*Ibid*: 266). Using the concept of social capital, Sudha Pai studied the village panchayats in Uttar Pradesh (2004). While appreciating different levels of social capital found in village, Pai argues that such social capital tends to exist '*within* and not *between* segments in rural

financial aspects of devolution have attracted very little attention. As shall be discussed in detail in Chapter 2, this is partially due to the discretionary (not mandatory) provisions for fiscal devolution in the same Amendment and the somewhat discouraging record of performance of the State governments with regard to financial devolution to the PRI.⁷

Nevertheless, though the provisions for financial devolution were not as drastic or insistent as those for wider political participation, the 73rd

society (2004: 61). In such a society, however, existing conflicts among different groups do not necessarily have negative impacts on development. Pai argues that conflicts, if successfully managed, rather than social capital are 'an important pillar and in fact a builder of democratic society (*op.cit.*)'. She further recognises the positive role played by the interventionist and redistributive state that functions through a number of welfare schemes in 'containing conflict between the privileged and underprivileged (*Ibid:* 62).' Isaac and Franke (2000), on the other hand, demonstrate successful reform initiatives in the southern State, Kerala. In 1996, a coalition of left parties led by the Communist Party of India-Marxist (CPI(M)) returned to power and immediately fulfilled one of its most important election promises by launching the 'People's Campaign for Decentralized Planning'. The authors narrate the successful implementation of this programme, which ensured active involvement of citizens through the Gram Sabha or all villagers council in the process of planning. What is unique about the case of Kerala is the highly organised efforts, emanating from the State Planning Board in the State capital, to reach the Key Resource Persons who actually facilitate the discussions in *Gram Sabha* (*Ibid:* 231). While the Kerala case has been appraised and recognised as a successful one, it can be argued that the exceptionally high literacy level and social development in Kerala tends to limit the scope for extending this model to other parts of India.

The study by Webster in West Bengal, in a sense, also points out the similar limitations of applicability to other areas (1996). Unlike the case of Uttar Pradesh, the cases of Kerala and West Bengal are often regarded as successful cases of PRI reform, mobilising mass participation in the planning process under the initiative of CPI(M)-led State government. However, Webster emphasises that the participation in West Bengal tends to be observed only along the party line of the ruling CPI(M). In West Bengal, CPI(M) has been in power continuously since 1977. Thus, when CPI(M) government initiated the reform process for decentralisation, it was carried by a highly disciplined party with motivated workers. These factors largely helped the successful implementation of land reform and other redistribution programmes through panchayats, as also suggested by Kohli (1987). On the other hand, Webster points out that there is a tendency in the villages that those who do not belong to 'the party', that is, CPI(M) can be excluded from the resource allocation by the panchayats (1996).

⁷ Concerning panchayats' revenue, Rao (2002) points out the 'institutional failure' of decentralisation in India, in which the financial dependence of PRI on both the State and central finance impedes the development of PRI. However, in terms of the taxation of panchayats, there is an inherent limitation to the panchayats' own effort in levying the taxes to cover its necessary expenditure. Since most tax revenues are concentrated at the Centre and at the States to a lesser extent, as long as the current arrangement is not going to be changed, tax sharing system and hence, dependence on the upper level of government is necessarily required (Kaneko 1997). The agricultural income tax has not been implemented on a large scale and it has been the major contentious issue in public finance. Rajaraman (2003; 2004) argues for introduction of agricultural income tax and its taxation power to be devolved to the panchayats, but considering the political sensitivity of this issue, it cannot be expected to materialise in the near future. From an empirical study in Karnataka, Crook and Manor (1998) argues that provision of resources from above does not necessarily threaten the autonomy of PRI. 'As long as substantial resources are passed down to councils..., and as long as they are not greatly reduced or cut off', PRI can secure considerable autonomy (*ibid.*: 56). On the other hand, regarding with the relations between grants from above and own tax resources, Rajaraman and Vasishtha's findings are unique in suggesting that too much untied fund devolved from the state government discourages the effort of panchayats to collect tax (Rajaraman and Vasishtha: 2000).

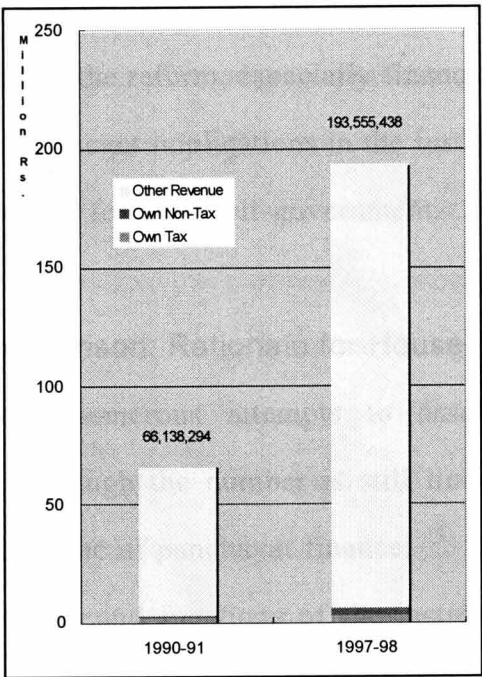
Constitutional Amendment has certainly brought major changes in the day-to-day functioning of panchayat finance. The most significant change is the multiple increases in the government scheme funds⁸ directed to the PRI from both the central and State governments (see Figure 0.2). Most notably, the implementation and the selection of beneficiaries for the two major centrally sponsored schemes (CSS), namely Sampoorna Gramin Rozgar Yojana (SGRY) and Indira Awas Yojana (IAY)⁹, which were devolved from the lowest administrative stratum of the State government to the panchayats. Following these changes, management of panchayat accounts was also transferred from the Block Development Officer (BDO)¹⁰ to the panchayat. The panchayats, most of which were functioning merely as nominal institutions of community representatives until the advent of the 73rd Constitutional Amendment were then suddenly required to perform numerous unfamiliar administrative tasks involving financial accounting and management. This lack in administrative expertise helps explain why the multiple increases in panchayat revenue are often not accompanied by appropriate accountability mechanisms. Thus, there opens up an wide angle of opportunity for local elites to manoeuvre towards capturing such funds, which is a typical example of what one can find in the bulk of literature on

⁸ Such schemes are normally part of the central government plan expenditure, sometimes with a certain percentage of matching expenditure of the State government. Scheme funds are normally 'tied' with clear regulations for usage.

⁹ Sampoorna Grameen Rozgar Yojana (Universal Rural Employment Programme) is an amalgam of various related schemes and was launched in 2001 by the Ministry of Rural Development, Government of India to generate employment for the rural poor by financing to build rural infrastructure. Indira Awas Yojna (Indira Voice Project) was also by the same Ministry to provide housing for the rural poor. In many cases, households categorised as below poverty line (BPL) and more specifically, Scheduled Castes and Scheduled Tribes for the case of the latter are entitled to be the beneficiaries of these schemes.

¹⁰ The position of BDO is sometimes called Chief Executive Officer (Janapad Panchayat, CEO(JP)) in some States such as Madhya Pradesh. However, the popular term BDO is used instead in this thesis to also signify CEO(JP).

Figure 0.2: Total revenue of PRI (Million Rs.)



Source: Report of the Eleventh Finance Commission, (GOI)

‘decentralisation and corruption’.¹¹ As Manor (1998) argues, it may not necessarily be the case that the actual amount of money involved in corruption is increased due to decentralisation but certainly the number of people involved can be increased.¹² This in effect gives enough reason for many

¹¹ Since mid-1990’s, there has been increased attention paid to the negative consequences of decentralisation. Prud’homme (1995) gave one of the first warnings about ‘the danger of decentralization’ in his much cited article titled the same. He argued that decentralisation increases regional disparity, undermines efficiency and furthermore, increases the overall level of corruption. In a similar line of argument, Tanzi (2002) also alerts the enthusiasts of decentralisation to its ‘pitfalls’. He argues that decentralisation should not be the only countermeasure for the ‘failed’ performance of the state. Whether or not fiscal decentralisation generates the positive results that its advocates claim it will, depends on certain conditions. In many developing countries, Tanzi argues, local officials tend to be far less competent than the national level bureaucrats and the incompetence and corruption on their part would undermine the promised success of decentralisation. Such warnings, mainly by economists, in fact, can be seen as part of the huge collection of literature on ‘corruption’, which has boomed in the 1990s. The bulk of literature described as ‘corruption eruption’, to use the words of Williams (1999: 487), tends to be heavily influenced by economic concepts and theories and fail to appreciate the fact that ‘(c)orruption is not an external or superficial feature but rather is embedded within political and economic systems; its precise role and effects will depend on the configurations and dynamics of such systems.’ (Williams 1999: 488). This tendency in dominance of economic analysis is also shared by the literature on ‘decentralisation and corruption’. Fjeldstad (2003) provides a comprehensive list of the literature on ‘decentralisation and corruption’.

¹² Manor (1999a) claims from more careful observation of such corrupt behaviours and argues that although the numbers of people committing corruption may have been increased, the amount of money may not necessarily have. Although it is difficult to measure the actual amount of money diverted by

villagers in India to suspect that the panchayat is functioning in an unfair and untrustworthy manner and acts only for the benefit of a handful of powerful elites. Financial aspects of the reform, especially financial management by the panchayat, thus have significant implications in the further development of the panchayats as an institution for local self-government.

1.3 Performance Comparison: Rationale for House Tax Comparison

There have been numerous attempts to assess and evaluate the performance of PRI. Although the number is still limited, the attention has slowly been paid to the issue of panchayat finance.¹³ However, partially due to the variety in structures and functions of the institution, there have been only few attempts made so far for inter-State comparison of the financial performance of panchayats.¹⁴ There have, in fact, been even less attempts

corrupt means, Manor (1998) provides a detailed observation of actual activities of PRIs in Karnataka, India as well as his understanding of the logic of corruption before decentralisation to support this argument. He argues that before decentralisation, ministers and legislators at the State level monopolised the 'ability to conceal how those [developmental] funds were managed', while at the block level, council members 'never knew how much money passed from New Delhi and the State capital down to their level in any given year' (*Ibid*: 62). The new system after decentralisation which he observed at the district level was clearly different from the old system. He writes, '... the new system was so open that a large number of people – councillors, journalists, senior and junior bureaucrats, informed citizens – knew how much money was available. ...Corruption among councillors was also checked both by tight official auditing procedures at the district level, and by the vigilance of journalists and leaders of voluntary associations. Corruption among bureaucrats, which in many districts appears to have exceeded that among elected politicians (particularly at sub-district levels), was restrained by the vigilance of councillors and their constituents...' (*Ibid*: 63)

¹³ As for panchayat finances, Singh (1993) is a comprehensive study on institutional development of financial dimension of PRIs in the post-independence India, whereas Oommen and Datta (1995) focus on the situation of the post-73rd Constitutional Amendment period and suggest significant institutional remedies for augmenting PRI finances. Konrad Adenauer Foundation edited a volume based on proceedings of 'the National Conference on 'Emerging Trends in State-Local Fiscal Relations in India' held at the National Institute of Rural Development, Hyderabad, which provides overall review on the status of fiscal devolution (1998). Apart from these books, there are numerous articles published in *Economic and Political Weekly*, such as Rajaraman, Bohra and Renganathan (1996) and Kannan and Mohan (2004), to name only a few.

¹⁴ Following the accumulation of the regional studies, several attempts were made to compare the performance of PRI among different States. The Institute of Social Sciences, a leading research institute on PRI based in New Delhi, produced a detailed survey on history and current situation on panchayati raj for each State (2000). Although the volume provides a substantial summary of the institutional development of PRI in each State, it does not provide any uniform perspective to make comparative studies possible. Perhaps, the only comprehensive comparative analysis of PRI so far has

made to compare and evaluate the performance of panchayats using uniform indicators.

This thesis is a modest attempt to propose one such indicator – the status of house tax collection by each panchayat. This thesis shows that by thus comparing and contrasting the resource mobilisation performances of panchayats in different States, a rough understanding of the financial performance can be estimated and thereby some sort of empirical ground for judging comparative success or failure of decentralisation reforms can be arrived at.

The revenue of panchayats can be categorised into three parts; a) own tax revenue, b) own non-tax revenue and c) other revenue (Figure 0.3).¹⁵ House tax is categorised as ‘own tax revenue’ for the panchayat. Although own tax revenue of panchayats is currently minimal, there has been increasing emphasis in the policy arena towards mobilisation efforts for increasing the PRI’s own revenue.¹⁶ Within the category of the village panchayat’s own

been the study published by the World Bank that sought to examine the performance of decentralised institutions in seven States (2000a). This study by the World Bank was conducted in the following States; Andhra Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh (*Ibid.*). From the empirical claims of this report, the World Bank went on to argue in another report that there was ‘steady progress’ in ‘the devolution of powers’ in States such as ‘Karnataka, Gujarat, Maharashtra, West Bengal, Kerala, and Madhya Pradesh’ (2000b: 45). Nonetheless, this report still failed to provide clear criteria for measuring the complex issue of performance amongst PRI in India. Studies are yet to firmly establish methods for comparing and ascertaining administrative performances by decentralised institutions across States in India.

¹⁵ Own tax revenue includes the revenue from taxes levied and collected by the panchayats. House tax comes under this category. Own non-tax revenue refers to the revenue from fees, user charges and cesses levied and collected by the panchayats. The remainder of the revenue is referred to as other revenue, which includes shared taxes from the State government, various government scheme funds and so called block funds or untied funds that can be used at the discretion of panchayats. Many State Acts made provisions regarding taxes that could be levied by panchayats. Though it varied from State to State, the house tax is one of the most common taxes levied by panchayats while other common taxes include vehicle tax, light tax and water tax. The latter two, light and water tax, can sometimes be provided as fees and not taxes.

¹⁶ This is perhaps not irrelevant to the separation of the Department of Panchayati Raj in 2004 from the Ministry of Rural Development to constitute independent Ministry of Panchayati Raj. Ministry of Rural Development has traditionally guaranteed to provide the PRI the chances to implement various rural development schemes including SGRY and IAY. However, the separation from the Ministry may suggest that PRI may in the future lose access to such scheme funds. A secretary in the Ministry of

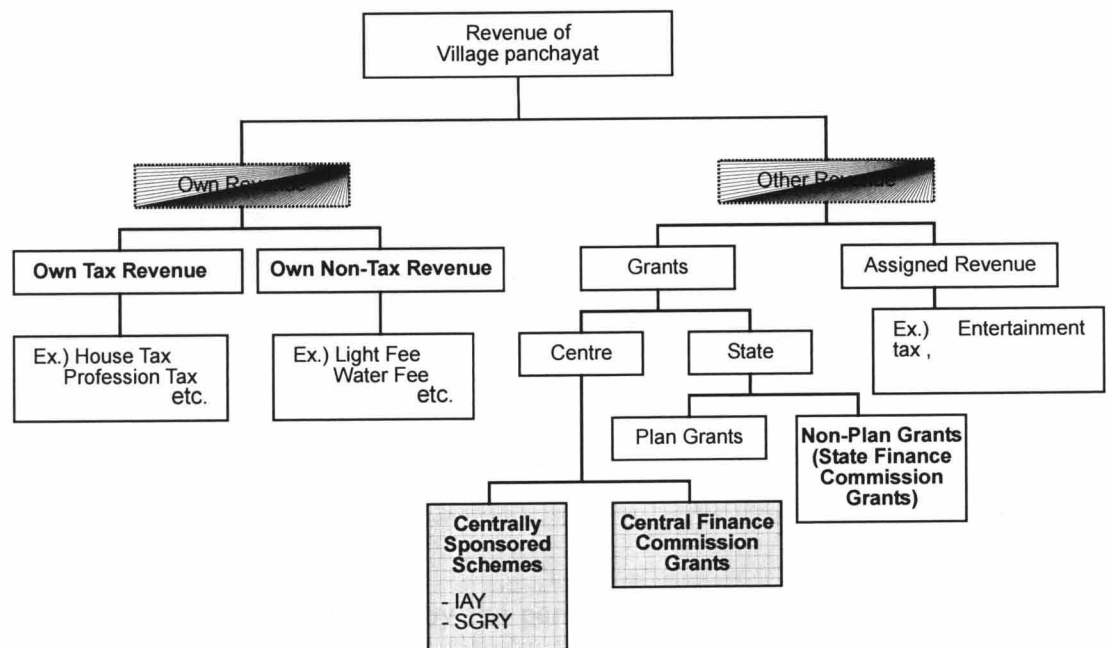
revenue, house tax is the most significant for the following two reasons. First, unlike the own non-tax revenue (which includes user charges for water, light or drainage), house tax is imposed on almost all the households as long as they own houses, regardless of the amount or the kind of services they receive in return. Therefore, the condition for collection is not supposed to vary significantly in all panchayats. Second, house tax is, in many States¹⁷, provided as an obligatory tax in the respective Panchayat Act of each State and one of the major own taxes of village panchayat with the broadest tax base. Obligatory taxes should be distinguished from optional taxes and other fees and user charges which have a limited tax base. House tax is to be levied by the village panchayats upon all the houses within the jurisdiction of the panchayat. As long as house tax is provided as an obligatory tax, the ability of the village panchayat to levy and collect house tax may reflect its ability to function as a local self-government unit.

At the moment there is no reliable data that enables State-wise comparison of house tax collection by the panchayats. Even at the State level, many States do not have credible data on approximately how much house tax is collected by the panchayats. However, from the data of Eleventh Finance Commission, it can be estimated that on average it is lower than 2% of the actual revenue of the panchayats while the rest of the revenue is grants and other scheme funds transferred from the central and State governments (Figure 0.2). Contrary to its current contribution to the panchayat revenue, house tax has a great potential for increased discretionary funds for the panchayat since

Panchayati Raj did not deny such possibility and stressed the necessity to coordinate with other Ministries to 'utilise PRI effectively (Interview with Baljit Singh Lalli, January 4, 2006, New Delhi).'

¹⁷ According to Bohra, house tax is an obligatory tax in nine out of fourteen major States (1998).

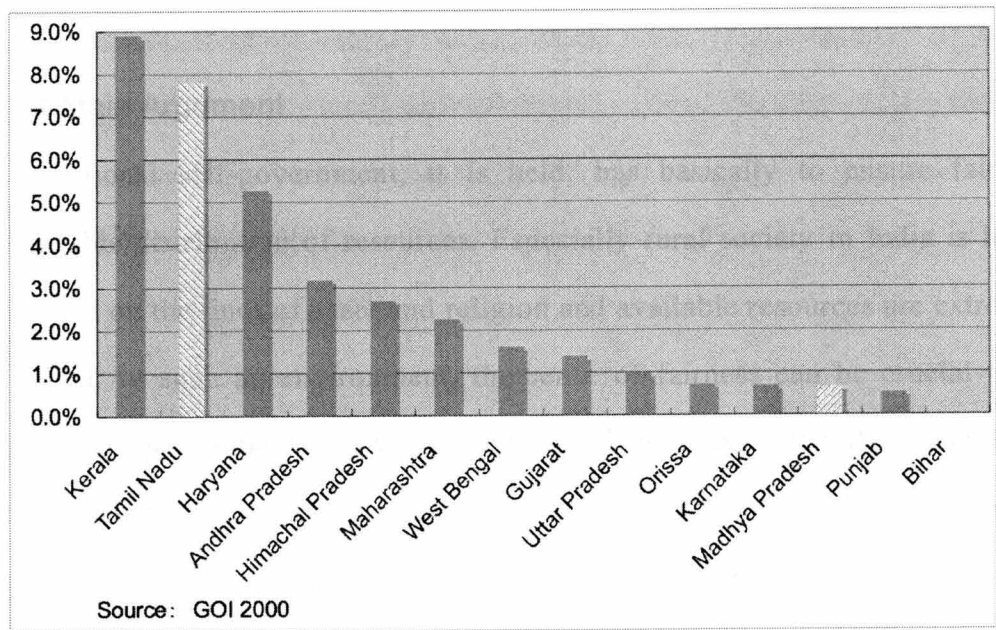
Figure 0.3: Revenue structure of village panchayat



the panchayat has full discretion on the allocation of own tax revenue. Where it is collected, house tax revenue is mainly used for operation and maintenance activities, such as the electricity bill for power pumps and streetlights, since most of the construction works can be done with the grants from the State or central government. It is, in fact, these operating expenses that inevitably become a financial burden for the local self-government, if there is no income from own revenue sources such as house tax. Some panchayats can even allocate part of its own tax revenue for minor construction works. There thus appears to be a strong case that an increased house tax revenue collection can lead to relatively more financial autonomy of the panchayat.

Generally speaking, the evaluation of the houses is conducted by the panchayat secretary in consultation with the panchayat and the panchayat president. In practice, the criterion of the evaluation is not as strict and the property value is estimated from the kind of roof and wall and the size of the

Figure 0.4: Own tax revenue ratio of PRI (%)



house. The tax rate is decided by the panchayat at the beginning of the fiscal year. Normally villagers come to pay the tax at the panchayat office, mostly on the occasion of *Gram Sabha* (all villagers council) or when they apply for some official documents.

According to the data of the Eleventh Finance Commission¹⁸, there can be observed differences in own tax revenue ratio in each State varying from 8.9% in Kerala to zero in Bihar as shall be described later in section 3 of this chapter (Figure 0.4). What accounts for this difference in own tax revenue of panchayats? What are the factors that promote tax collection in one area and prevent it in another? These are the questions which will be examined in this thesis in order to illuminate our larger concerns; notably the quest to identify credible empirical ground to view the comparative success or failure of

¹⁸ The Finance Commission data only distinguish 'own tax revenue', 'own non-tax revenue' and 'other revenue' but does not particularly deals with data for revenues from each tax. Data with regard to house tax collection is not aggregated at the national level and in some States, it is not available even at the State government level. Inter-State comparison, therefore, has to be made only at the level of 'own tax revenue'.

decentralisation reforms in India.

1.4 Main Argument

Local self-government, it is held, has basically to ensure fair and equitable distribution of resources. Especially rural society in India is highly divided on the lines of caste and religion and available resources are extremely limited. In such an environment, the sense of fairness can be crucial to the local self-government if it wanted citizens to pay taxes. If villagers can trust the panchayat in its fair resource distribution, there is a strong reason to then believe that they will be at least less reluctant to pay taxes. However, as briefly discussed, the newly empowered panchayat seldom possesses the expertise or mechanisms to ensure equitable resource distribution and accountability. This is partially due to the limited experiences of the panchayats as a unit for local self-government. It was the State government stretched down to the block level that traditionally assumed this role of law enforcement and policy implementation. After the legislative changes since the 73rd Constitutional Amendment, the State government has increased its interaction with village panchayats, often to supervise them in implementing government schemes and to inspect their overall activities, but its degree significantly varies among the States. While the village panchayats themselves are still in a nascent level as a government institution, there is a possibility that by heightening the administrative capacity of the State government, there can be an increase in the ability of the panchayat to be an effective collector of taxes and thereby becoming a credible pillar of decentralisation. Such cases may then lead to enhancing the trustworthiness of the panchayat as well as the State government. This thesis argues that three factors enable the panchayat to collect taxes

successfully: a) the administrative capacity of the State government, b) trustworthiness of the State government and c) trustworthiness of the panchayat. The next section will explain and explore the above stated factors.

2. Theoretical Framework

2.1 Alternative Hypotheses

A) Fiscal exchange

Some authors argue that the element of fiscal exchange is important when arguing about the motivation of tax-payers (Andreoni et al: 1998). That is, tax-payers make decisions whether to pay or not based on their evaluation on how far they are obtaining reciprocal services in return for their tax contributions. Cowell and Gordon (1988) stress this point of ‘expenditure’ side of the government behaviour rather than the designs of penalties that are imposed by the government. Individuals may decide to pay taxes because they recognise that their payments are essential to help finance the goods and services provided by the government. Fjeldstad (2004a) further extends this argument while exploring the possibility of applying to the case of local taxation in Tanzania. He argues that fiscal exchange requires trade-off gains that may be seen as preconditions of voluntary compliance (*Ibid*: 3). The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Examining citizens’ perception on services provided by the Tanzanian local government, Fjeldstad finds that taxpayers to the Tanzanian local government are aware of the tangible benefits that they receive from the latter. Non-taxpayers, on the other hand, clearly state that they are willing to pay only if the services provided by the government are satisfactory. Thus, individual citizens of Tanzania pay taxes as

long as they recognise the goods and services provided by the government are sufficient and valuable. If one accepts Fjeldstad reasoning for this study, then it can be claimed that the potential taxpayers will pay taxes to their panchayats only if they recognise the goods and services provided by the latter are satisfactory.

B) Level of socio-economic development

In the context of property taxation in developing countries, Richard Bird points out there is 'a general tendency' that 'the larger urban areas' have the best collection record and 'the poorer rural areas' the worst (1970: 163). This might be attributed to the different level of competence of local officials in respective areas (Tanzi 2002) in collecting taxes, or to the different level of literacy or 'awareness' of the citizens who are expected to pay. However, there is little empirical data to further support this hypothesis. Nevertheless, Bird's appears to be a view widely held by many local officials in India.¹⁹ In a sense, it is an often heard excuse of the officials in economically backward regions that poorer and illiterate villagers cannot afford to pay or do not even understand the necessity to pay taxes. In the case of the panchayat taxation, all the panchayats are located in 'rural' areas but the relative position of each panchayat in terms of its level of socio-economic development might sharply vary. Since there is a considerable variation in the level of socio-economic

¹⁹ The officials interviewed both in Tamil Nadu and Madhya Pradesh mentioned this assumption. In Tamil Nadu, asked about the reason why Tamil Nadu panchayats have generally high level of collection ratio while many panchayats in other parts of India do not, one official at the district level and one senior officer answered without hesitation that it was because of the level of education and awareness which was higher in Tamil Nadu (Interview with AD(P) on condition of anonymity, December 30, 2003, Tamil Nadu and interview with an IAS officer on condition of anonymity, February 8, 2004, Tamil Nadu). In Madhya Pradesh, several block level and district level officials held the view that the panchayats that could collect taxes were generally located in relatively urbanised areas while in remote areas, uneducated villagers did not recognise the obligation of tax payment (Interview with a CEO(JP) on condition of anonymity, February 6, 2004, Madhya Pradesh and interview with an officer at the district level on condition of anonymity, February 14, 2004, Madhya Pradesh).

development even within a State, it will be required to select the districts with different levels of socio-economic development to examine the validity of this hypothesis.

This thesis will argue that these two alternative hypotheses (A, B), on examination, will be limited in their explanations of the level of house tax collection by the panchayats.

2.2 Hypothesis

This thesis proposes to situate and understand the issue of panchayat taxation in the context of administrative settings in each State. Successful tax collection requires not only administrative infrastructure, but the latter has to be complemented by the taxpayers' confidence in the government administration. Especially, given the context in which the panchayat, statutory tax authority does not have adequate administrative infrastructure, the role played by the State government can be crucial in enabling the level of tax compliance for the panchayat. In the following sections, rationale for three factors that comprise hypothesis of this thesis will be stated. To reiterate; three factors are a) administrative capacity of the State government, b) trustworthiness of the State government and c) trustworthiness of the panchayat.

2.2.1. Administrative Capacity of the State government

In the international policy arena, it is often argued as if decentralisation is a process in which the state retreats into the minimalist role. The discourse of the World Bank, one of the major advocates of decentralisation reforms in

many parts of Asia, Africa and Latin America represents such a view.²⁰ In its report published in 1997, the idea of decentralisation was situated in the broader context of 'rethinking the state' and its role rather than essentially being directed towards the delivery of public goods and services. Emphasis was laid on the private sector involvement in taking over the role of the centralised state. The views demonstrated in the World Bank reports tend to limit the role of the central state in managing the national fiscal policies and coordinating the decentralised service delivery while 'participation' of civil society is suggested as filling in the gaps of the retreating state. For the sake of argument, this type of discourse of decentralisation will be referred to as 'participatory decentralisation'.²¹

Pranab Bardhan (2002) casts doubts on such assumption of 'participatory decentralisation'. While pointing out that decentralised local

²⁰ The World Bank has promoted decentralisation as a reform strategy in developing countries since the 1980s. According to Litvack et. al. (1998), twelve percent of the Bank projects completed between 1993 and 1997 involved decentralisation. The World Bank first mentions decentralisation at length in its 1994 Report titled 'Infrastructure for Development'. In this report, decentralisation is considered to be measures to improve the efficiency of public service provisions. It was argued that the 'centralized public infrastructure bureaucracies' have not been efficient nor effective in responding properly to local concerns or adjusting to the local conditions.

²¹ This term can be synonymous to what Tendler refers as 'D&P (decentralisation and participation)' in her book (1997). She argues that 'in the D&P scenario, the central arm of government does considerably less than it did before. It ...has retreated to a principally regulatory and standard-setting role' and 'moves in the direction of becoming a benevolent bystander of a mainly two-way dynamic between local government and a demanding civil society (*Ibid*: 144).' Neera Chandhoke (2003) describes the process of decentralisation promoted by the World Bank or other development agencies, as 'pluralisation of the state' and argues that it is a 'move from centralised state to governance', rather than to another type of state that is decentralised. The shift to governance occurred, Chandhoke argues, following the similar shift in industrial firms, that is, replacement of contestation or 'the political' by notions of administration and management. As a result, the state now shares power not only with sub-national governments but also, 'with a variety of quasi-public and private organisations, with NGOs and with international agencies and other forms of supra-national governance (*Ibid*: 2967).' She expresses concern over how one can ensure that democratic procedures are taken into account inequalities in such bodies out of the reach of representation. In Orissa (India), for example, a *pani panchayat* or water-sharers' association was established by an NGO with the support of the World Bank in order to rationalise and ensure water distribution among its members. Without democratic representation in the association, however, the *pani panchayat* was inevitably dominated and controlled by big landlords as the poor could not afford to 'participate' to represent their interest. Although the problem of water distribution was recognised as 'apolitical' and administratively manageable, the process of resolving such problem was strongly undermined by political factors (*Ibid*.).

government often faces a threat to be 'captured' by 'local elites', Bardhan claims that decentralisation programmes should focus a great deal of attention instead on strengthening the local accountability mechanisms. He argues that the state is required to play a certain activist role in providing financial support, neutralising the power of local elites, supplying technical and professional services toward building local capacity, acting as a watchdog for service quality standards, evaluating and auditing, investing in larger infrastructure projects and so on. In this sense, he argues, the state, 'far from retreating into the minimalist role..., may sometimes have to play certain activist roles' (*Ibid*: 202).

The assumption of 'the retreat of the state' or 'participatory decentralisation' is also questioned by Tendler (1997). Based on her empirical study of decentralised programmes in Ceara (Brazil), Tendler argues that the centralised control over human resources by the provincial government paradoxically contributed to the success of decentralised programmes in preventive health. While the services are provided at the municipal level in a decentralised manner, it was the provincial government that created an environment in which civil servants highly motivated through competition and rewards, work effectively to reduce infant death rate and so on (*Ibid*: 42-3). Decentralisation, she claims, is not a simple process of transformation from a centralised state to a more decentralised one, but involves certain degree of administrative centralisation while decentralising the provision of services (*Ibid*: 15, 156).

Authors arguing against 'participatory decentralisation' support the role of the state in areas such as; providing financial support; ensuring democratic representation at the local level; mediating conflicts among different groups;

fair distribution of resources; and evaluation and audit. The state is expected to provide administrative infrastructure which ensures fair and equitable resource allocation. As pointed out by Prud'homme (1995) and Tanzi (2002)²², decentralisation reforms in general tend to be accompanied by increased cases of corruption at the local level. However, it is not inevitable if, as in the case of Brazil in Tendler (1997), the provincial or the State government demonstrates strong administrative capacity to monitor and provide adequate incentives to the local self-government.

This is especially true to the case of tax administration of the panchayats. With regard to the revenue mobilisation by the panchayat, the dominant view has been negative. Rao argues 'very little has been done in term of giving revenue-raising powers to the local bodies' (2002: 299). Detailed study on the financial status of village panchayats in two States, Karnataka and Kerala, by the World Bank team reveals that even in Kerala, where decentralisation is reportedly most advanced in terms of devolution of administrative and financial powers, little effort is being made to increase tax collection at the level of local self-government (Sethi ed. 2004: 23). However, what they found in the field was not that panchayats did not have enough revenue-raising powers but rather that statutory taxing powers were not fully used to increase tax revenues. Other single State studies held respectively in Madhya Pradesh and Karnataka also suggest that the tax administration and incentive mechanisms rather than the statutory provisions themselves are the impeding factors to increase tax revenues of village panchayats (PRIA 2000; TIDE-CBPS 2000).

²² See footnote 11.

The importance of administrative capacity for tax system in developing countries has been repeatedly pointed out by tax policy specialists (Bird 1970, 1983, 1989, 1991, 1992; Casanegra de Janstcher and Bird 1992; Tanzi 1987). Based on the experiences of tax reforms in developing countries, Bird emphasises that 'Limited administrative capacity is a binding constraint on tax reform in many developing countries. (Bird 1992: 190)' 'Good' tax administration, Casanegra de Janstcher and Bird define, is the one not simply collects the most revenue but also makes sure that revenue is raised in a fair and equitable way (1992: 1). A poor-quality tax administration, on the contrary, will collect large amounts from 'easy-to-tax' group of people most of whom are politically weak and be unable to enforce taxes on those who are powerful (*Ibid.*). In order to realise good tax administration, it is necessary 'to see that the law is properly drafted and codified; that the administration is properly organized, staffed, and trained; that taxpayers are located, placed on the rolls, and their returns adequately examined and audited; that relevant information is obtained from other government departments and elsewhere and properly utilized; that controversies between taxpayers and the administration are satisfactorily resolved; that taxes due are collected; and that penalties are properly applied (Bird 1992: 196).' Although these arguments are designed primarily for income tax administration, local taxation is not an exception. However, it seems too huge a task for a local self-government to acquire such complex administrative skills and infrastructure. Indeed, Bird points out the serious problem that the local self-government in Colombia had to face in the 1960's (1970: 163). Inefficiency and inequities in collection of property tax were typically witnessed in many parts of rural areas, where the collection ratio tends to be much lower than in the urban areas (*Ibid.*: 163). The local

governments in rural areas are often dominated politically by the large landowners who have to pay what few property taxes are paid and administrators, if they are going to, are often prevented from collecting for an obvious reason (*Ibid*: 159). However, Bird finds an interesting case to improve the situation. The regional development corporations in the area, 'much of whose own income, being in the form of an additional property tax, depends on the efficiency of the local tax administration' provided 'technical assistance' to the local governments within their jurisdiction in order to raise more tax revenue (*Ibid*: 164). Such technical assistance included funding to increase the number of valuers and various administrative measures to ensure fair enforcement of property tax. If '[t]he key to implementing any concept of "fair" taxation...lies in the ability of the tax administration (Bird 1983: 3)', the possible solution for a local self-government might be found in such 'technical assistance' to strengthen its administration.

From an administrative point of view, thus, in order for the panchayat to successfully levy taxes, the administrative capacity of the State government necessary comes into the picture. Administrative capacity can be largely defined as possessing administrative infrastructure to realise governance goals such as rule of law, revenue mobilisation and service provisions. In the case of revenue mobilisation, the competent government would ensure higher level of tax compliance through checking the financial status regularly, guidance and in some cases through incentive mechanisms. As for service provision, it would be aimed at ensuring the amount and quality of services through regulatory activities including regular inspections and account audit. As argued by Tendler (1997), the State government can provide administrative infrastructure on the basis of which the local self-government can perform well

in providing services such as primary health care. Such infrastructure included centralised control over human resources and provision for funds on merit basis by the provincial government of Ceara. In the case of house tax administration, the tax authority is invested in local self-government – the panchayat, which is supposed to carry out the assessment and collection of the house tax within its jurisdiction. However, the State government can provide administrative infrastructure, as in the case of Ceara, by inspecting the collection status regularly, providing incentives to raise collection ratio and helping the panchayat with legal procedures to recover arrears. Thus, this thesis argues that the administrative capacity of the State government, if successfully demonstrated, can help and enable the panchayats to raise the collection ratio for house tax.

While this is the necessary condition for the administration, we should also focus on the tax-payers side, notably by asking the question – why do people pay or do not pay taxes. In many cases, the panchayat is deeply embedded in the social structures and hierarchies of the community. The tax collectors, namely, the panchayat president and the secretary are from within the community and are expected to collect taxes from among their relatives and neighbours. Thus, the panchayat, in a sense, is situated in between the state and the local community, which may make tax collection more difficult. As shall be discussed, the Indian village community is also inevitably divided on the lines of caste and religion, along which conflicts can often be witnessed. In such an environment, the significance of informal norms such as trust can even be greater than what the literature reviewed in the following suggests. The following sections will substantiate this point of view.

2.2.2. Trustworthiness

‘Why people pay tax’ or tax compliance is a problem ‘as old as taxes themselves (Andreoni et.al. 1998: 818)’ and has been tackled from various perspectives. Andreoni et.al. categorises the economists’ approaches to the problem of tax compliance into four perspectives; it can be viewed as a problem of 1) public finance (regarding evasion as distorting equity and efficiency); 2) law enforcement (higher probability of detection leading to higher compliance); 3) organisational design (effective institutional designs for tax enforcement); and 4) labour supply (relations with degree of evasion and occupations) (*Ibid*: 818-19). Most studies have, thus, focused on limiting chances for evasion through coercive measures and increasing ‘voluntary’ compliance.²³ As many authors admit, however, it has been pointed out recently that the actual level of tax compliance is much higher than what is estimated by the standard economic models of tax compliance (*Ibid*: 855; Feld and Frey 2002: 88; Slemrod 2003: 56). In the case of the individual income tax in the United States, with minimal probability of being subject to a thorough audit (less than 1 percent) and not so high penalty on fraudulent evasion (75 percent of unpaid taxes), ‘most individuals would evade if they are “rational” (Alm et.al. 1992: 22).’ Yet compliance rate remains relatively high, that is, far more individuals tend to comply than what is suggested by the standard economic theory of compliance (*Ibid.*).²⁴

²³ Levi coined the concept ‘quasi-voluntary’ compliance arguing that so called ‘voluntary’ compliance should be distinguished from compliance induced by coercive measures or compliance which is ‘purely self-interested behaviour’, she argues it is still ‘quasi-voluntary’ because the noncompliant are subject to coercion – if they are caught (1988: 52).

²⁴ Similar limitation has also increasingly been pointed out in the realm of deterrence theory that deals with the problem of compliance in general. Deterrence theory, being part of rational choice theory, argues that compliance increases as the probability of detection and the size of penalties for noncompliance increase, but faces similar dilemma of higher compliance rate than it predicts. It is argued that the weakness of deterrence theory is in its assumption of utility maximisation and full

In order to explain this puzzling discrepancy, between compliance in the real world and that of economic models, political scientists have attempted to look at the problem of tax compliance as a form of collective action. It is a collective action not only among citizens in deciding whether or not to pay but also among law enforcers. Citing the case of corrupt bureaucracy in Russia, Rothstein argues that the problem of law enforcement itself is a collective action, in which a bureaucrat will not obey the law and commit an injustice as long as he/she is not convinced that others also comply with the law and will not, for instance, take bribes (2000: 481). It has increasingly been appreciated that the problem lies not only in the formal design of institutions but also in informal constraints such as 'norms of behaviour or codes of conduct (*Ibid*: 483; North 1998: 506).' Thus, the authors have tried to explain taxpayers' behaviours using the notion of *trust* that can be observed between the state and taxpayers (Scholtz 1998; Fjeldstad 2004a, 2004b).

The literature on trust in political science has seen an enormous growth, especially in the last decade. This is partially attributed to the recognition that the political as well as social trust has generally been on a decline, which is often considered to have a negative impact on a democratic society (Miller and Borrelli 1991; Putnam 1995). What has rejuvenated this long-standing discussion over political trust and its impact on democracy is the publication of Robert Putnam's book, *Making Democracy Work* (1993) and the following debate over social capital.²⁵ Although it is not within the scope of this study to

information (Sholz 1998: 142). For an average citizen, it is difficult to have accurate information on the probability of detection (*Ibid*: 144).

²⁵ Putnam defines social capital as 'features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions (1993: 167).' The notion of social capital was developed mainly by James Coleman, which Putnam cites, 'Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence.... For example, a group whose members manifest trustworthiness and place

examine the vast literature on social capital, it is nevertheless significant to note that Putnam attempted to establish that the associational network and norms of reciprocity promote civic engagement, which in turn affect government performance (*Ibid.*). In applying the theory emerged two questions that were especially relevant to the cases of developing countries; first is the question on the validity of causal relationship between the existence of associational civic community and the performance of the government, and the second, on the constructability of social capital. The question relevant to this thesis is the latter, the point to which we shall come back later.

Rational choice theorists have tried to employ the notion of trust, but definition of trust varies even among them. Hardin defines trust as a three-part relation: A trusts B to do X (or with respect to matters X) (1998: 12). It is a conditional trust in which 'I might trust you to keep various promises... even though I might not trust you to avoid romantic entanglements with my spouse (*Ibid.*: 12)'. Hardin calls this definition of trust as 'encapsulated interest', that is, 'my trust in you is typically encapsulated in your interest in fulfilling my trust'. Hardin's definition presupposes a rational citizen who on the basis of information and knowledge about the individual, agent or institution, tries to assess and calculate the trustworthiness of the trusted. However, it cannot explain trust relationship under imperfect information, the situation in which the strength and essence of trust as an analytical concept is often exhibited.

extensive trust in one another will be able to accomplish much more than a comparable group lacking that trustworthiness and trust.... In a farming community...where one farmer got his hay baled by another and where farm tools are extensively borrowed and lent, the social capital allows each farmer to get his work done with less physical capital in the form of tools and equipment (Coleman 302, 304, 307, cited in Putnam 1993: 167).' In Coleman's definition, the word trust is used almost synonymous with the notion of social capital while Putnam's definition puts an emphasis on the mechanism that trust is engendered, that is, networks of civic engagement strongly influenced by Alexis de Tocqueville. Nevertheless trust undoubtedly forms the central part of the notion of social capital.

In recognising the limitation of parsimonious definition, other authors have tried to capture the essence by defining trust more broadly. Scholtz argues that trust in everyday life is 'less likely to reflect conscious, rational assessment and more likely to reflect 'heuristics' (1998: 136). Heuristics is a term borrowed from psychology, explained as 'decision aids or cognitive short-cuts used to minimize cognitive effort for routine decision situations (Scholtz and Pinney 1995: 491)'. It is developed to deal with the numerous trusting relationships encountered in situations where 'encapsulated interests are less clear (Scholtz 1998: 136-7)'. In order to cope with frequent decisions in low-information situations, people develop 'trust heuristics' that allow them to assess subconsciously the probability that the trustee will undertake expected actions if trusted. Trust heuristics, like all heuristics, 'are subject to systematic errors', particularly when those that work reasonably well in one setting are extended to other settings (*Ibid*: 137). Heuristics approach, thus, can be applied to situations with imperfect information and explains why more people tend to comply than what is rationally estimated. On the other hand, the approach does not fully explain how such heuristics develop in one place but not in others.

Levi (1998) defines trust as 'a holding word for a variety of phenomena' that facilitate individuals 'to take risks in dealing with others, solve collective action problems, or act in ways that seem contrary to standard definitions of self-interest (1998: 78)'. As for trust in government, Levi posits a rather broader definition in which the truster's knowledge of the institutions and reputation of the trusted may provide sufficient information for the truster to make a judgement about the trustworthiness of the trusted (Levi and Stoker 2000: 485)'. This is why she emphasises the distinction between trust and

trustworthiness.

According to Slemrod, the ‘flip side of trust (2003: 51)’ is *trustworthiness* – a term that has increasingly been studied in relation to tax compliance. Any person or institution can possess the attributes of trustworthiness, which ‘can assure potential trusters that the trusted party will not betray a trust (Levi and Stoker 2000: 476).’ Levi argues;

Citizens are likely to trust government only to the extent that they believe that it will act in their interests, that its procedures are fair, and that their trust of the state and of others is reciprocated. These are the conditions of *contingent consent*, behavioral compliance with government demands even when an individual’s costs somewhat exceed her individual benefits and even in the absence of strong ideological convictions that make costs totally irrelevant. Contingent consent is a citizen’s decision to comply or volunteer in response to demands from a government only if she perceives government as trustworthy and she is satisfied that other citizens are also engaging in ethical reciprocity. (Levi 1998: 88, *Italics* by Levi).²⁶

What this distinction between the trusting acts of trusters and the trustworthiness of the trusted suggests can be summarised into two points. First, it suggests that the acts of trusting may not necessarily derive from the attributes of trusters but may depend on the trustworthiness of the trusted. In which case, the causal arrow as suggested by Putnam (1993) can be reversed and trustworthy government can enhance citizens’ capacity to trust. ‘Trust relationships and their robustness are as much a matter of the receiving side, the trusted, as of the providing side, the truster (Offe 1999)’. Second, the acts of trusting may require the commitment and competence of the trusted but not necessarily the shared norms or networks among trusters.

Levi argues the state can not only affect interpersonal trust, especially

²⁶ Ethical reciprocity refers to ‘the norm of contributing one’s fair share as long as others are also doing their part (*Ibid*: 88-9)’. In other words, it is a sense of obligation for reciprocity, which again can be reinforced by government action or institutional arrangements as emphasised elsewhere by Levi.

generalised trust, but also create it (1998). By solving 'the essential information, monitoring, and enforcement problems', states often reduce the citizens' cost in trusting each other, or they may facilitate trust (*Ibid*: 84). In addition, credible commitments and reputation of government further reduce the citizen's need to make a personal investment in monitoring and enforcing government activities and thus enhance citizen trust of government (*Ibid*: 86). These are the kinds of institutional arrangement that can also engender trust among citizens. In agreeing with Levi, Offe argues: 'We trust our fellow citizens ...due to the fact that we share a significant institutional space with a sufficiently strong meaning so as to make the overwhelming majority of "strangers" among my fellow citizens worthy of being trusted because I anticipate them to be appreciative of that meaning (*Ibid*: 71).'²⁷ Implications of this line of thought are constructability of trust among citizens and the role of state as an agent to enhance it, or in other words, 'creating trust from above (Rothstein 2000: 491)'.

Looking back the definitions of rational choice theorists starting from Hardin to Levi, they have become certainly broader by freeing the trusters from the burden of gathering and processing information on the trusted. On the other hand, the basis of truster's choice is still restricted to the information gained from direct/indirect interaction or current reputation of the trusted. Rothstein argues that trusters do not necessarily make judgements based on the information currently available (2000). Thus, he incorporates historical perspective to understand and analyse the trusters' judgement without,

²⁷ Offe presupposes two mechanisms through which institutions facilitate trusting. The first is the mechanism in which these institutions are both 'cognitively familiarized and effectively impregnated with the normative ideas embodied in the institution.' The second is the kind of institutions that lower the risk of the truster, such as insurance companies, social security arrangements, legal regulation of family support as well as courts in general (1999: 71).

according to him, falling into ‘the deterministic bias (*Ibid*: 496)’.²⁸ Referring to the study on trust in institutions, Rothstein argues ‘it is probably not the formal institution as such that people evaluate, but its historically established reputation in regard to fairness and efficiency. What matters is the collective memory about the actual operations of the institutions. ...it is the “history of play” more than the formally enacted rules of the institutions that matter (*Ibid*: 493).’ It might be possible that trusting people depend on the historically established reputation of the trusted which is strong enough to allow them not to monitor the institutions’ performance for the time being. The historical perspective will prevent us from limiting our understanding of institutions only to the current performance and help broaden the scope of analysis.

In applying these theoretical frameworks to tax compliance, thus, the major concern will be how the government can establish credibility and a reputation for trustworthiness so that citizens believe that state officials will honour their commitments in the future (Rothstein 2000: 483; Levi 1998). Levi and Stoker (2000) argue that trustworthiness can be attributed to two aspects. The first is ‘a *commitment* to act in the interests of the truster because of moral values that emphasize promise keeping, caring about the truster, incentive compatibility, or some combination of all three (*Ibid*: 476, *italics added*)’. The second is ‘*competence* in the domain over which trust is being given (*Ibid*., *italics added*).’ The truster makes decisions based on his/her observation on the trusted’s commitment as well as on its competence in doing so. Such assessment is made both through processing currently available information as

²⁸ Rothstein introduces the notion of ‘collective memories’ which are ‘deliberately created by strategically acting political entrepreneurs in order to further their political goals and ambitions (2000: 494)’. The concept of collective memory views ‘the creation of ideas and social norms as ‘a strategic political process (*Ibid*: 493)’.

well as referring to the historically established reputation of the trusted.

What the authors attempt to emphasise by including the concept of trustworthiness may be that administrative capacity of the government as well as trust generated by the government matters for realising higher tax compliance. In the case of house tax administration, however, trustworthiness of the government cannot be regarded as monolithic. Authors arguing about trustworthiness of the government assume that there exists a one-to-one relationship between government and citizens, in terms of the latter's compliance to the rules set by the former. If the government in this case can be redefined as the institution which possesses and performs administrative tasks that it is entrusted by the citizens, then the case of house tax administration requires to be considered at two levels. That is, trustworthiness of the State government and trustworthiness of the panchayat have to be understood as separate phenomenon respectively. This is because, as discussed, various tasks of tax administration for house tax are divided and shared between the panchayat and the State government. By separating trustworthiness into the two levels, it also becomes possible to consider different kinds of challenges that the panchayat and the State government have to face respectively in order to attain trustworthiness as described in the following. Especially the specific challenge that the panchayat has to deal with requires attention before shifting to the next section.

2.2.3. Challenges for Trustworthiness of the Panchayat

The question of establishing trustworthiness of the panchayat is related to the overwhelming challenge of the Indian village, the caste problem. Deep-seated political and social antagonisms, often witnessed in Indian

villages is in many cases attributed to the complex caste composition within each village (Madan 2002). Often a caste that has ritual status, economic prosperity, and numerical strength can turn into the dominant caste in the village (Madan 2002: 17). The first condition, ritual status has recently been losing significance since many of the newly emerging landed elites belong to relatively lower castes, often categorised as Other Backward Classes (OBC), which have increasingly gained political significance. In brief, castes can be largely categorised into SC, ST, and 'others'.²⁹ 'Others' are comprised upper to middle caste and can be further categorised into OBC or Backward Classes (BC) and Most Backward Classes (MBC), depending on the legislation in each State.³⁰ In many cases, dominant caste belongs to the categories of OBC, BC, MBC or 'others', most of which are often the landed classes.³¹ If a numerically and economically powerful dominant caste exists within a village panchayat, resources can be distributed only among them or their followers and economically and socially backward ST and SC can be excluded from the process of resource sharing. The significance of the 73rd Constitutional Amendment lies in the fact that it sought to ensure the representation of SCs and STs in local bodies so that they could be part of the decision making process for resource allocation. In the Gram Sabha meetings, the lists of

²⁹ ST does not strictly come under the concept of caste as in Hinduism. However, since the Constitution provides for the preferential treatment to ST as to SC due to their socio-economic backwardness, it is often regarded as a category equivalent to castes.

³⁰ In the case of Madhya Pradesh, the former category, 'OBC' and 'others' are utilised while in Tamil Nadu, 'BC', 'MBC' and 'others' are the categories other than SC and ST. For the sake of convenience, ST is regarded as one of the caste category in this thesis.

³¹ There are, of course, villages in which ST or SC is the numerically dominant caste as in the cases of two village panchayats in Madhya Pradesh that will be examined in the later section. In which case, however, dominance of such caste in terms of political power appeared to be limited. One possible explanation is that such ST or SC dominant caste does not monopolise land holdings as in the case of upper caste dominance and hence, the monopoly of political and economic resources is somewhat limited. Although this perspective on land holdings is significant, this thesis focuses on the issue of caste configuration due to the limitation of data gathering.

beneficiaries of government schemes for poverty reduction such as SGRY and IAY are approved by the participants. The Gram Sabha is composed of all the electorate within the panchayat and the meetings are generally held four times a year. Due to its practical role in selecting the beneficiaries, most of the population existing below poverty line (BPL) are especially required to attend the meeting. Nevertheless, there are numerous reports about the cases in which dominant castes often prevent SCs and STs from attending the Gram Sabha meetings and in extreme cases, resort to severe violence against the latter. In such cases, conflicts and distrust will prevail rather than successful collective actions and trust.

Apart from the exclusion of SC and ST from resource allocation process, the panchayat can risk its trustworthiness by distributing resources arbitrarily to a limited group of the residents. The panchayats tend to be dominated by the president and small groups of their associate among whom the resources can be exclusively allocated. James Manor reports that the Chief Minister of Madhya Pradesh remarked with irritation that 'I did not expect panchayati raj [the rule of panchayat] to become *sarpanch raj* [the rule of panchayat president] (Manor 2001).'

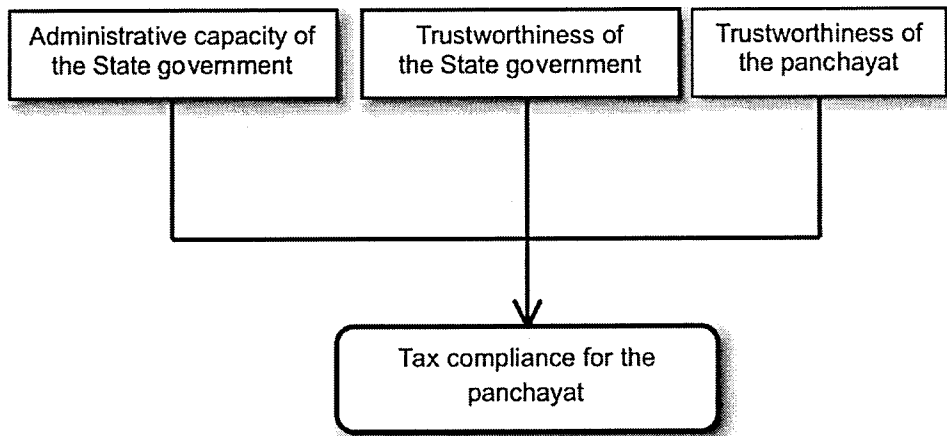
Moreover the dominant caste had in the past controlled official posts such as the seat of the president and the secretary of the panchayat. Although the post of president is no more monopolised by the dominant caste due to the reservation policy, the secretary is often appointed by the panchayat president or the leadership in the dominant caste. Since the panchayat president and the secretary are supposed to work in tandem to manage panchayat funds, such appointments may lead to increasing distrust towards the panchayat especially among villagers belonging to the lower castes.

Thus, it might in fact be possible to say that the level of trust in the panchayats is linked to these possibilities of caste related conflicts in each village. All these potential sources of discontent and distrust towards the panchayat can risk trustworthiness of the panchayat and hence the level of tax compliance. It is necessary, therefore, to examine to what extent this caste factor may or may not influence the level of trust in panchayats when investigating the trustworthiness of the panchayat.

2.3 Hypotheses to be Tested

This thesis, therefore, hypothesise the relationships among the administrative capacity of the State government, trustworthiness of the State government and trustworthiness of the panchayat as factors contributing to higher tax compliance as shown in Figure 0.5. Although administrative capacity is a necessary condition in order to generate tax compliance, it may not be sufficient in so far as compliance enables PRI to function as autonomous bodies for realising genuine decentralised outcomes. That is, unless the government creates a situation in which it is trusted, compliance cannot be generated. Increased level of compliance might be possible if administrative capacity of the government can successfully be perceived by the citizens as a sign of trustworthiness and hence, can generate trust among citizens to the government. Put differently, the literature of trust and trustworthiness of the government may suggest that it is the translation of this administrative capacity of the government into trustworthiness that generates genuine compliance or other administrative outcomes. Thus, in order for the panchayat to realise higher level of tax compliance, three factors, namely, a) administrative capacity of the State government, b) trustworthiness of the State

Figure 0.5: Model of Hypothesis



government and c) trustworthiness of the panchayat are considered necessary. In Chapter 4, the hypothesis just stated above, along with the two alternative hypotheses, namely, factors of fiscal exchange and level of socio-economic development will be examined for verification.

3. Method

The selection of the States was made according to the data of Eleventh Finance Commission published in 2000. If we look at the ratio of own revenue (taxes, fees and other charges) to the total revenue of PRI in each State, there is a considerable variation among the 14 major States. The performance of each State in terms of own revenue collection of PRI seems to be inconsistent with the conventional evaluation of successful cases of PRI. For instance, except for Kerala, none of the States that were ranked high in the evaluation of the World Bank (2000b: 45), namely, Karnataka, Gujarat, Maharashtra, West Bengal, and Madhya Pradesh is included in the top five of this figure. If, as argued, own tax revenue of panchayat has a significant implication for the

fiscal autonomy of the institution, what does this variation suggest? Why PRI in some States can successfully mobilise own resources while those in others fail? This thesis selects Tamil Nadu from among a set of high performing States and Madhya Pradesh from among that of low performing States respectively for the following two reasons. First, these two States were among the least studied States in terms of PRI. Unlike States such as Kerala (Tornquist and Tharakan 1996; Issac and Franke 2000; Heller 2000, 2005), West Bengal (Webster 1992, 1996; Ghatak and Ghatak 2002; Bardhan and Mukherjee 2005) and Karnataka (Mathew 1986; Manor 1998; TIDE-CBPS 2000), studies on Tamil Nadu PRI have been less comprehensive and many of them are restricted to reflect only a part of reality (Pal 2001; Thirunavukkarasu 2002; Sumathi and Sudarsen 2005).³² Madhya Pradesh has been one of the least studied States in terms of rural development but its PRI has recently attracted attention due to its decentralisation reforms since 1993 (Kulkarni 1999; Manor 2001; Behar and Kumar 2002; Behar 2003). Nevertheless, there have been no empirical studies using comparable indicators. Therefore, there is a need to fill in the gap of empirical studies in these two States. Second, the positions of both States in terms of own revenue ratio of PRI are both sharply contrasting to the conventional evaluation of decentralisation reforms in each State. Although Tamil Nadu scores high in terms of PRI's resource mobilisation and Madhya Pradesh low, the former is rarely considered as a successful case for decentralisation while Madhya Pradesh is regarded as a good performer in terms of 'devolution of power' by the World Bank (2000b).

³² G. Palanithurai has published numerous articles and books on Tamil Nadu PRI and has been an exceptional figure in terms of his depth in understanding the complex phenomenon of local self-governments in the State (Palanithurai 1999, 2001, 2003a, 2003b). Although many of his publications have provided valuable insights, such observations and claims have rarely been tested by State-wise empirical analysis.

By studying these two States thoroughly, it may be possible to provide some alternative perspectives for evaluation of PRI, which some conventional evaluations have so far neglected.

Following the 73rd Constitutional Amendment, the States comprising the Indian federation were then obliged to change their legislation according to the provisions of the amended Constitution. This institutional change set the condition to observe and compare the different performance in decentralisation policy in each State. However, it has to be admitted that the comparison of two States has certain limitations for any conclusive argument about such diversities among States. Especially in a country such as India, in which an amazing diversity exists in terms of language, religion and caste among States as well as within States, selection of State itself cannot be made without omitting several conditions that are difficult to control but yet may have significant implications. Primarily for this diversity, on the other hand, if we were to explain the effectiveness of the explanatory variable, it could be less risky to select States according to the dependent variable. This is what Atul Kohli attempted in the study on three States with regards to the effectiveness of poverty alleviation policies (1987). Detailed examination of the political as well as social system of each State will then substantiate the comparative analysis on why such difference appeared.

As can be seen from Table 0.1, the socio-economic data for Madhya Pradesh is quite distinct from that for Tamil Nadu. In all indicators with regard to education, health and economy, Tamil Nadu scores better than Madhya Pradesh. Therefore, in order to examine the efficacy of the claims of the

Table 0.1: Basic socio-economic indicators for Madhya Pradesh and Tamil Nadu

	Madhya Pradesh	Ranking in 17 states	Tamil Nadu	Ranking in 17 states	All India (average)
Population	60,385,118	7	62,110,839	6	1,027,010,000
Rural population	50,827,008		36,811,081		
Area (sq.km)	308.25	2	130.06	9	3,276.10
Population Density (per sq.km)	196.0	15	478.0	6	324.0
Urbanisation (Urban population/All population)	26.7%		43.9%		27.8%
Literacy Rate	64.1	11	73.5	4	65.4
Sex Ratio (female per 1000 males)	920	14	986	3	933
Infant Mortality Rate (per thousand)	97	14	53	4	71
Human Development Index for India	0.394	12	0.531	3	0.472
GSDP (1999-2000 - 2001-02 Average)	13,340	13	22,587	7	16,978
Tax/GSDP Ratio Average 1999-2000 to 2001-02	5.49	13	8.63	1	6.54

Source: India Development Report 2004-05, GOMP(2002), GOTN(2003)

alternative hypothesis with regard to the relationship between the level of socio-economic development and level of tax collection, selection of the districts has to be made carefully.

In each State, three districts were selected from which two village panchayats were selected respectively, which comes twelve panchayats altogether. In selecting the districts, the human development index (HDI) measured in each State's human development report (GOMP 2002; GOTN 2003) is used as an indicator to enable to verify the alternative hypothesis. The HDI is comprised of four different indices in three different categories, namely, health (life expectancy ratio), education (literacy rate and combined enrolment ratio) and economy (estimated income). Both Madhya Pradesh and Tamil Nadu have published their own human development reports in which district wise HDI is included as in Table 0.2 and 0.3 and summarised in Table 0.4. These

indicators enable us to locate the selected districts in terms of the level of socio-economic development within each State. However, due to the different data used in calculating HDI in the two States³³, the HDI is not appropriate for inter-State comparison between the two States. For this reason, several additional census data are employed to compare six districts in relating to economy (Table 0.5) and to others (Table 0.6). Together, these indicators help identify the relative position of each district in terms of social as well as economic aspects. It makes possible to compare the performance of both economically advanced and backward districts to examine the conventional assumption that economically advanced area tends to have higher collection ratio. Although attempts were made to have a well-balanced selection, there was inevitably a certain level of bias since access to data and cooperation from the local officials were prioritised in the selection process. While it cannot be denied that this bias sets certain limitation to the results of our enquiry, some measures to supplement deficiencies are taken. In case of Madhya Pradesh, data from my earlier fieldwork in Damoh and Vidisha districts (ranked 18th and 27th respectively in Table 0.2) as well as PRIA study³⁴ are used to provide wider range of data on house tax collection. In case of Tamil Nadu,

³³ To construct Tamil Nadu's HDI, the following data were used; district-wise income estimates (new series at 1993-4 prices) for the year 1998-9, estimated by Department of Economics and Statistics (DOES), Government of Tamil Nadu; life expectancy at birth for the year 1997 calculated by the vital events survey (VES) conducted by Danish development agency, DANIDA; literacy rates for 2001 (census); and combined gross enrolment ratios for 1998-9 (GOTN 2003: 184-85). As for Madhya Pradesh HDI, data used were; district-wise income estimates, estimated using the methodology of DOES, Government of Madhya Pradesh; estimated life expectancy for 2001 from National Sample Surveys; literacy rates for 2001 and combined school level enrolment for 2000 obtained from Rajiv Gandhi Siksha Mission (GOMP 2002: 131-33). Although they share basic ideas of constructing the index, the data used is different, and hence, not suitable for inter-State comparison.

³⁴ PRIA, an NGO based in New Delhi published in 2000 a report '*Finances of Panchayats in Madhya Pradesh*' (henceforth 'PRIA study') sponsored by UNICEF and Government of Madhya Pradesh, in which it studied the financial status of three-tier PRIs in five districts; Bhind, Bilaspur, Indore, Jabalpur and Sidhi. In order to supplement the small number of samples of the current study, the findings of PRIA study will be consulted from time to time in the following examination.

Table0.2: Human Development Index for Madhya Pradesh

District	Education		Health		Income		HDI	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Indore	0.811	4	0.746	1	0.526	6	0.694	1
Bhopal	0.813	3	0.665	3	0.510	8	0.663	2
Raisen	0.797	7	0.505	31	0.632	1	0.645	3
Ujjain	0.763	14	0.580	11	0.555	4	0.632	4
Mandsaur	0.795	8	0.558	15	0.544	5	0.632	5
Ratlam	0.756	16	0.551	18	0.584	2	0.630	6
Neemuch	0.751	18	0.558	14	0.570	3	0.626	7
Gwalior	0.764	13	0.672	2	0.435	19	0.624	8
Shajapur	0.792	9	0.555	17	0.505	9	0.617	9
Dewas	0.695	35	0.639	5	0.497	11	0.610	10
Narsimhapur	0.833	1	0.531	27	0.466	14	0.610	11
Harda	0.738	21	0.510	29	0.516	7	0.588	12
Chhindwara	0.729	23	0.591	8	0.440	17	0.586	13
Hoshangabad	0.765	12	0.510	30	0.478	13	0.584	14
Balaghat	0.769	10	0.558	16	0.415	22	0.580	15
Mandla	0.720	26	0.626	6	0.388	25	0.578	16
Jabalpur	0.818	2	0.542	21	0.356	28	0.572	17
Damoh	0.719	27	0.484	37	0.501	10	0.568	18
Bhind	0.808	5	0.582	10	0.306	35	0.566	19
Sagar	0.755	17	0.484	38	0.456	16	0.565	20
East Nimar (Khandwa)	0.705	28	0.544	20	0.440	18	0.563	21
Sehore	0.724	24	0.491	35	0.466	15	0.560	22
Dhar	0.611	42	0.641	4	0.424	21	0.559	23
Dindori	0.657	37	0.626	7	0.387	26	0.557	24
Sidhi	0.634	40	0.550	19	0.481	12	0.555	25
Seoni	0.741	19	0.582	9	0.326	32	0.550	26
Vidisha	0.721	25	0.495	33	0.431	20	0.549	27
Datia	0.803	6	0.504	32	0.322	33	0.543	28
Katni	0.739	20	0.542	22	0.345	29	0.542	29
Betul	0.759	15	0.494	34	0.359	27	0.537	30
Shahdol	0.700	33	0.535	25	0.338	31	0.525	31
Morena	0.766	11	0.540	24	0.255	39	0.520	32
Sheopur	0.589	43	0.540	23	0.412	23	0.514	33
Rajgarh	0.617	41	0.487	36	0.408	24	0.504	34
West Nimar (Khargone)	0.700	32	0.576	12	0.217	43	0.498	35
Guna	0.702	31	0.476	39	0.300	36	0.493	36
Umaria	0.695	36	0.535	26	0.245	41	0.492	37
Satna	0.732	22	0.410	44	0.307	34	0.483	38
Rewa	0.705	29	0.476	40	0.254	40	0.478	39
Shivpuri	0.703	30	0.372	45	0.343	30	0.473	40
Panna	0.700	34	0.466	41	0.243	42	0.470	41
Tikamgarh	0.646	39	0.463	42	0.296	37	0.468	42
Chhatarpur	0.649	38	0.424	43	0.273	38	0.449	43
Barwani	0.513	44	0.576	13	0.177	44	0.422	44
Jhabua	0.471	45	0.513	28	0.133	45	0.372	45
Madhya Pradesh	0.719		0.540		0.397		0.552	

Source: GOMP (2002: 14)

Table0.3: Human Development Index for Tamil Nadu

District	Education		Health		Income		HDI	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Chennai	0.820	1	0.870	2	0.580	2	0.757	1
Kancheepuram	0.738	3	0.768	15	0.631	1	0.712	2
Kanniyakumari	0.794	2	0.885	1	0.453	22	0.711	3
Thoothukudi	0.721	8	0.857	3	0.530	5	0.703	4
Coimbatore	0.738	4	0.792	9	0.565	3	0.699	5
Nilgiris	0.737	5	0.809	5	0.510	10	0.685	6
Trichy	0.709	11	0.807	6	0.497	13	0.671	7
Madurai	0.619	27	0.832	4	0.533	4	0.661	8
Tirunelveli	0.680	18	0.806	7	0.489	16	0.658	9
Erode	0.736	6	0.716	25	0.523	6	0.658	10
Vellore	0.676	19	0.781	12	0.518	8	0.658	11
Thiruvallur	0.706	12	0.773	14	0.484	18	0.654	12
Nagapattinam	0.689	15	0.784	11	0.489	17	0.654	13
Virudhunagar	0.693	14	0.753	18	0.508	11	0.651	14
Karur	0.718	9	0.732	21	0.492	14	0.647	15
Cuddalore	0.731	7	0.749	19	0.451	23	0.644	16
Dindigul	0.661	24	0.741	20	0.521	7	0.641	17
Sivagangai	0.711	10	0.768	16	0.441	26	0.640	18
Tiruvarur	0.683	17	0.793	8	0.435	27	0.637	19
Namakkal	0.687	16	0.728	23	0.491	15	0.636	20
Thanjavur	0.656	25	0.787	10	0.447	25	0.630	21
Ramnad	0.670	22	0.762	17	0.454	21	0.629	22
Theni	0.628	26	0.775	13	0.480	19	0.628	23
Salem	0.671	21	0.698	27	0.508	12	0.626	24
Pudukkottai	0.676	20	0.729	22	0.451	24	0.618	25
Tiruvannamalai	0.693	13	0.721	24	0.422	28	0.612	26
Perambalur	0.618	28	0.703	26	0.465	20	0.596	27
Villupuram	0.668	23	0.678	28	0.417	29	0.587	28
Dharmapuri	0.614	29	0.628	29	0.512	9	0.584	29
STATE	0.696		0.767		0.508		0.657	

Source: State Planning Commission, Chennai, 2001, cited in GOTN (2003: 142)

Table 0.4: Summary of HDI of selected districts

	Education			Health			Income			HDI		
	Index	Ranking within State	Ranking in 6	Index	Ranking within State	Ranking in 6	Index	Ranking within State	Ranking in 6	Index	Ranking within State	Ranking in 6
MADHYA GUNA	0.702	31/45	5	0.476	39/45	6	0.300	36/45	6	0.493	36/45	6
PRADESH	0.763	14/45	2	0.580	11/45	4	0.555	4/45	2	0.632	4/45	2
H	0.759	15/45	4	0.494	34/45	5	0.359	27/45	5	0.537	30/45	5
TAMIL NADU	0.628	29/29	6	0.614	29/29	3	0.512	9/29	3	0.584	29/29	4
	0.792	9/29	1	0.738	4/29	1	0.565	3/29	1	0.699	5/29	1
	0.762	17/29	3	0.670	22/29	2	0.454	21/29	4	0.629	22/29	3

Table 0.5: Economic Indicators of Selected Districts

		Infrastructure			Access to drainage			Ratio of Livable houses			Housing		
		Availability of Electricity	Closeness to drinking water sources*										
		%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
MADHYA PRADESH	Rural	62.3%		72.7%		19.8%		96.1%		8.9%			
	Guna	63.4%	5	72.9%	4	26.2%	2	97.1%	5	6.4%	6		
	Ujjain	86.2%	1	75.3%	3	22.0%	4	97.6%	4	10.9%	4		
	Betul	70.0%	3	65.3%	5	14.5%	6	95.6%	6	10.3%	5		
TAMIL NADU	Rural	71.2%		86.7%		27.4%		99.1%		14.4%			
	Dharmapuri	68.6%	4	82.3%	2	25.2%	3	99.1%	2	11.4%	3		
	Coimbatore	74.5%	2	91.9%	1	39.9%	1	99.3%	1	16.2%	1		
	Ramnad	61.2%	6	60.5%	6	17.5%	5	98.7%	3	13.0%	2		

		Ownership of durable goods						Total			Rank		
		Radio Transistor	Television	Telephone									
		%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	Total Rank	
MADHYA PRADESH		17.4%		16.9%		1.9%		296.1%					
	Guna	16.7%	5	19.0%	5	1.5%	4	303.1%	5		36	5	
	Ujjain	19.6%	4	32.0%	1	2.5%	2	346.0%	2		23	2	
	Betul	14.0%	6	15.0%	6	1.9%	5	286.6%	6		42	6	
TAMIL NADU		38.6%		24.3%		5.1%		366.7%					
	Dharmapuri	32.8%	3	20.2%	4	4.0%	6	343.5%	3		27	3	
	Coimbatore	40.2%	2	29.6%	2	8.3%	1	399.9%	1		11	1	
	Ramnad	40.9%	1	21.4%	3	5.5%	3	318.7%	4		29	4	

Source: Census 2001, Government of India

*: Ratio of households having drinking water sources within or near premises

Note: all the data is extracted from household survey of Census 2001

Table 0.6: Other Indicators of each districts

State	District	Population	Scheduled Caste population	SC%	Scheduled Tribe population	ST%	Sex Ratio	Urbanisation	Literacy Rate	Density
MADHYA PRADESH	Guna	1,665,503	293,527	17.62%	203,742	12.23%	875	21.3%	59.9%	151.00
	Ujjain	1,710,982	422,882	24.72%	53,230	3.11%	944	38.7%	71.2%	281.00
	Betul	1,395,175	147,604	10.58%	549,907	39.41%	965	18.6%	66.9%	138.92
TAMIL NADU	Dharmapuri	2,856,300	416,951	14.6%	59,549	2.1%	936	16.0%	61.4%	296.85
	Coimbatore	4,271,856	630,675	14.8%	29,103	0.7%	976	66.0%	77.0%	566.00
	Ramnad	1,187,604	216,312	18.2%	1,078	0.1%	1033	25.5%	73.0%	287.00

Source: Census 2001, Government of India

some additional data with regards to house tax collection in all the panchayats of the two districts, namely Coimbatore and Ramnad, will serve the same objective as shall be examined later.

Thus, as for Madhya Pradesh, three districts, namely, Ujjain, Guna and Betul are selected (ranked at 4th, 36th and 30th respectively out of 45 in Table 0.2). Ujjain is the most urbanised and advanced of the three in terms of the basic socio economic indices, more advanced than two districts of Tamil Nadu (Table 0.4 and 0.5). Guna shares similar historical as well as social background with Ujjain both being part of the former Gwalior princely state, while it situates in more rural settings. Betul, on the other hand, is located in the forest areas in the south with a predominantly tribal population, which is a factor to characterise Madhya Pradesh that has one of the largest tribal population in the country. While Guna scores higher than Betul in terms of economic indicators (Table 0.5), it has lower social index than Betul especially in education (Table 0.2 and 0.6). In the case of Tamil Nadu, Dharmapuri and Ramnad, both known for their social and economic backwardness as well as Coimbatore which is more urbanised and economically advanced were selected (ranked 29th, 22nd and 4th respectively out of 29 in Table 0.3). Coimbatore, having the second largest industrial city in Tamil Nadu, is both economically and socially the most advanced of the six selected districts. Dharmapuri is economically more advanced than Ramnad but has lower social indicator than that of Ramnad. In sum, Dharmapuri's relative economic advancement is cancelled out with its lowest social indices in the State, which results in the lowest HDI in Tamil Nadu. Ramnad is economically the most backward of the three districts, but its better index on education keeps its ranking at 22nd, higher than Dharmapuri. Considering both indices, the relative socio-economic

position of selected districts in each State should perhaps be 1) Ujjain, 2) Betul and 3) Guna as for Madhya Pradesh, while in Tamil Nadu, the order will be 1) Coimbatore, 2) Ramnad and 3) Dharmapuri. However, in terms of estimated income or other economic indicators, the relative position of Dharmapuri and Ramnad is reversed. In any case, Coimbatore (TN) and Ujjain (MP) scores higher than any other four districts in the two States, which helps to examine the question on whether or not this relatively advanced position helps in increasing tax revenue.

Within each district, two development blocks were selected. This is to take plural samples of block administration from a district. The block administration is the lowest administrative unit of the State government and hence, has the most significant role in collaborating with the panchayats. By selecting two blocks, it becomes possible to study more units of block administration, which contributes to the examination of our hypothesis. Below the district level, however, it is difficult to obtain detailed comparable socio-economic data. Therefore, two blocks that bear representative features of the district in terms of available data for SC/ST proportion were selected. In each development block, one panchayat was selected according to two criteria; distance from the block office (10-15km) and the closeness to the average population as well as SC/ST proportion of the block. The first criterion was set in order to control the condition for the regulatory activities by local officials over the panchayat³⁵ as well as to keep certain distance from the urban environment. Thus, in sum, twelve village panchayats in six districts in two

³⁵ Some local officials in MP admitted that they tend to visit only to the closer and physically well-connected villages for inspection if required. For average size of a development block, 10-15km from the office is relatively close yet not too urbanised. Since in the Village Panchayat adjacent to towns house tax tend to be levied more customarily, in order to observe house tax collection status in rural setting, the distance 10-15 appeared appropriate for the study.

States were examined. To keep anonymity of the name of panchayat, each panchayat is numbered from MP1 to MP6 for Madhya Pradesh panchayats and from TN1 to TN6 for Tamil Nadu panchayats.

In each State capital, first, interviews were conducted for Secretary, Department of Panchayati Raj in Madhya Pradesh government and Secretary, Department of Rural Development in Tamil Nadu government respectively. They also provided cooperation in arranging the meetings with the officers in charge in districts selected in advance. In the district/block office, interviews of the officers in charge and data collection were conducted. In a panchayat, detailed interview with the panchayat president and secretary were first conducted as well as the questionnaire for villagers. With regard to the questionnaires for villagers, two issues were kept in mind in selecting the respondents. First, each panchayat consists of more than one village³⁶, often as many as eleven to twelve villages. It is often pointed out and confirmed also from my previous visits that the panchayat president tends to allocate maximum resources from various developmental schemes of the government to his/her own village. Second, in Indian village politics caste is one of the most defining factors on the basis of which various factions are formed. Therefore, in order to reflect diversity of interests in each panchayat, survey of villagers was conducted not randomly but according to the caste proportion in each village. While the total population of each village is officially available, information on the proportion of each caste in every village is not. Thus, it was unavoidable to rely on the objective information obtained from the interviews of village panchayat president, secretary, the block level official and other

³⁶ The 'village' here refers to 'revenue village', the term used as a minimum administrative unit in the census.

villagers gathered at the panchayat office³⁷. The estimate was revised and adjusted upon the actual visit to the hamlets. Thus, based on the information both official and unofficial, in every panchayat, 30 villagers from all the caste groups belonging to all the villages consist the panchayat were interviewed with the questionnaire attached in Appendix 4.

In order to examine the validity of the hypotheses mentioned above, villagers were asked whether they trust or have faith in the panchayat. In order to give a relative perspective to this answer, they were also asked the same question for village level officials, block/district level official, State government, central government, MP, MLA and NGO. Villagers were also asked two sets of questions with regards to the VP performance. The first set is related to the component of trust in Fjeldstad's study, namely, the evaluation of actual performance of panchayat. The questions include how they evaluate the performance of new panchayats as compared with the previous ones before the 73rd Constitutional Amendment, whether they think the panchayat ensures the equitable allocation of works among different villages within the panchayat³⁸ and whether they think the panchayat funds are managed properly. The second set of questions is related to the awareness of each villager. They were asked to name as many projects implemented by the panchayat as possible and also to name as many candidates for the panchayat president in

³⁷ Caste proportion is not officially recorded except for SC and ST population. One way to make more accurate count is to calculate from voter's list by identifying family name of each voter with his/her caste. However, it will necessarily require villager's cooperation in identifying each name with each caste, which inevitably takes much more time and yet does not necessarily guarantee accuracy as maintenance of voter's list is also a political issue, as sometimes names from opponent groups are dropped by the dominant faction (Sumathi and Sudarsen 2005). Hence, rough estimation by the village people verified with the official data on proportion of SC/ST was applied as the second best measure.

³⁸ This question is based on the assumption or claim that village panchayat president tends to allocate resources to his/her own village. One village panchayats can be comprised of several administrative villages, which tends to result in unequal distribution of resources among villages. See also section 5.2.

the last election as possible³⁹. The answers to these sets of questions will enable us to examine on what basis respondents trust or distrust panchayats; whether trust is based on the satisfaction with actual performance, whether trusters possess sufficient and concrete information about the performances. If the trusters do not possess sufficient information, the components of trust may be supplied from external sources. The enquiry is also supported by substantial interviews to panchayat officials as well as government officials and financial data collected from each panchayat.

4. Scope and Limitation of the study

The thesis will be restricted to examining the specific State governments in India. To put the Indian sub-continent through a historical microscope, however, may require a deeper appreciation of the legacy of the regions' numerous pre-modern kingdoms in terms of their state apparatuses, administrative penetration and governance infrastructure in rural areas. To avoid what would undoubtedly be an impossible task for a thesis, the explorations therefore are further sought to be confined temporally as well to the rise of modern administration set up by the British rulers, after the 'Mutiny' in 1857. For the same reason, the thesis does not deal with the urban local bodies which were equally guaranteed the position of the third tier of government in the 74th Constitutional Amendment in 1993. Within a number of decentralised bodies in rural India, the focus of analysis is set on the formal government institutions, that is, PRI and the village panchayats at the lowest

³⁹ I have benefited from the personal interaction during the summer school at University of Hydelberg in 2003 with Prof. Dietmar Rothmund, who suggested an example of counting names of the candidates in the previous election to assess the respondent's level of political awareness.

tier of PRI in particular. Therefore, the analysis excludes various user committees or other private institutions. These limitations are intended to sustain the main focus of the study.

Before proceeding to the chapter plan, some clarification on terminology is required. In this thesis, focus of attention will be on the relationship between the local administration and local self-government. 'Local administration' in this thesis refers to the public administration below the State level and will be distinguished from local self-government or local government, that is, three-tier PRI. Within local administration, the district administration played the major role in the pre-independence period, in the revenue collection as well as various infrastructure building. In the post-independence period, the unit of development block was added at the sub-district level, which bears the responsibility of implementing rural development schemes and providing various extension services including agriculture and education. Local administration refers to the local office of the State administration and prior to the introduction of PRI, it was supposed to be accountable to the State Legislative Assembly but not to the local population of the district. Though most officials in local administration belong to the State services, the upper echelon of the apparatus belongs to the elite Indian Administrative Services (IAS), which are the employees of the central government. Using this structure, local administration also acts as the agents of the central government especially in implementing centrally sponsored schemes (CSS) for rural development. When considering the role of the state in decentralisation reforms, the role played by local administration becomes crucial.

The term *panchayati raj* refers to the system of rural local self-government as a whole while Panchayati Raj Institutions (PRI) refers to

the three tier rural local self-government, namely, district, block and village panchayats. The terminology for these three tiers vary in each State and in each era, but to avoid confusion, they are referred to respectively as district, block and village panchayats unless required in a specific context. Although the term *panchayat* originally refers to village panchayats, it has been extended to the local self-government at the block and district level such as 'block panchayat' and 'district panchayat'. When the term is used independently, however, it refers to village panchayats.

5. Chapter plan

In order to appreciate the context of the recent decentralisation reforms in the 1990s, Chapter 1 starts the historical enquiry from the decentralisation policies since 1871 when the colonial government first attempted to decentralise. It reveals the paradox of 'decentralisation' reform since the British India had never succeeded in centralising powers when the reform was initiated. The objective of the British administration, in effect, was in centralising the state machinery in rural areas by using the popular concept of 'local self-government'. The development of local self-government during the British period, thus, coincided with the post-Mutiny (1857-) expansion of state control to the rural areas. Local self-governments were designed to bear the financial burden of the expansion of the empire. In the post-independence era, Jawaharlal Nehru (1947-64), the first Prime Minister of independent India initiated a fresh set of strategies on decentralisation in the late 1950s. The rhetoric on decentralisation this time around was located very substantially as being an integral part of the larger project of socio-economic transformation. Local self-governments were now expected to bring about transformation in

rural communities by ensuring implementation of various government schemes including land reform. However, the dominance of the landed elites in the countryside was little affected by the abolition of *zamindars* or large scale landlords and undermined the capacity of PRI. Dominated by local landed elites, PRI was far from an ideal institution to realise socio-economic transformation. On the other hand, unlike the colonial predecessor, the state apparatus in independent India successfully penetrated the countryside. Centralisation of public administration rather than decentralisation had thus been accomplished by the mid-1960s. The following period of stagnation of PRI can mainly be attributed to the increased tension between the central and State governments especially in the 1980s. In the 1990s, on the contrary, the era of liberalisation starting from 1991 worked to move decentralisation away from its overwhelming political imperatives to the new impetus drawn from 'economic reform'. The declined fiscal interdependency between the Centre and States, increased emphasis on fiscal deficit reduction, and increased power and presence of regional parties in the national politics, all have dispersed the long accumulated tension between the Centre and States. Economic imperatives of liberalisation as well as transformation of the political system have, in a sense, set the conditions for the comprehensive decentralisation reform in the 1990s.

Chapter 2 then examines the changes that occurred following the 73rd Constitutional Amendment and reveals in detail the changed environment for decentralisation in the 1990s. Ironically, just as when PRI's role as a local self-government was substantially defined in the Constitution, PRI has become increasingly regarded as one of the implementers of government schemes. As a result, their mandate as democratically elected government institution tends to

be overlooked. This is perhaps related to the question why one of the fundamental powers of the government, taxation, has never been effectively recognised as a crucial function of PRI.

Chapter 3 tries to enquire into the institutional development of PRI as well as local administration in the two States. The institutional development of panchayats can be traced back in the land-revenue system in each State. The frequency of interaction with the local administration as well as accumulation of administrative expertise at the village level in Madras benefited it to develop effective local self-government system. Enquiries into the development of panchayats through the post-independence era also reveal a sharp contrast between the two States in their administrative capacity. It is reflected in the differences in the degree of interactions between the local administration and panchayats in terms of monitoring and providing incentives. This difference in administrative capacity is further enhanced by the kind of governance style applied by each State leader in the early 1990s. Especially since the governance style of the ex-Congress government in Madhya Pradesh (1993-2003) typically embodied that of 'participatory decentralisation'. It appears that the performance of local self-government in terms of taxation does not matter much in its policy framework. Neither panchayats nor the State government of Madhya Pradesh demonstrates trustworthiness to its citizens, but they were, in a sense, not expected to do so in the policy framework of the State government. This is in sharp contrast with the case of Tamil Nadu, which maximises its administrative capacity to gain full control over the activities of PRI.

Chapter 4 will be the data analysis and case study of the twelve

panchayats in Madhya Pradesh and Tamil Nadu. Using the data⁴⁰ of house tax collection and villager's perception towards government institutions and so on in these panchayats, the efficacy of the hypotheses was examined. While the thesis hypothesis centres on the notions of administrative capacity and trustworthiness, alternative factors such as level of socio-economic development, elements of fiscal exchange were also examined. Following the categorisation of four groups, the detailed case study will deepen the analysis of panchayats belonging to each group by incorporating caste configuration in each village. By examining all these factors, the chapter will lead to a comprehensive understanding of the mechanism of tax compliance in the village panchayat.

⁴⁰ The first field research was conducted from December 2003 to March 2004 in three districts in Tamil Nadu (Cuddalore, Dindigul and Madurai) and three districts in Madhya Pradesh (Damoh, Betul and Vidisha). Second field research was conducted from January 2005 to March 2005 in another three districts in Tamil Nadu (Dharmapuri, Coimbatore and Ramnathapuram) and also in Madhya Pradesh (Betul, Guna and Ujjain). The last supplementary fieldwork was conducted in Betul, Madhya Pradesh in February 2006.

1 History of decentralisation in India: From British period to the pre-73rd Constitutional Amendment period

In this chapter, the Indian decentralisation experience since the British period in the later nineteenth century up to the reforms by Rajiv Gandhi that ended in 1989 will be explored. For this phase roughly extending from the 1870s to the late 1980's, the complex set of factors moved the idea of decentralisation through various political regimes of the central government, namely the British government (-1947), Congress (1947-77), the Janata Party (1977-79) and Congress(I) (1980-89) and the changes that follow. In the various twists and turns with regard to administrative decentralisation in this bloc of more than one century, the notion of decentralisation for rural administration in India was implemented to meet different objectives during the colonial and the independence period respectively. While the British administration used 'local self government' to enable them chiefly to collect revenue, in the post independence decades the Nehruvian government sought to carry out specific types of social transformation through its Community Development programmes. The Community Development initiatives mainly through the panchayats, however, ended in some sort of stalemate as the Nehruvian government was not able to comprehensively circumvent the powers of the landlords or *zamindars* in the countryside.

The 'stalemate' that characterised the early years of independence was sought to be overcome by various political regimes. Many of the initiatives, however, met with both intended and unintended outcomes. The Janata Party during their brief tenure at the centre made the first substantial attempts to end the stalemate of the Community Development period. However, their initiatives proved ineffective and subsequent to the Janata Party's efforts rural decentralisation in India had to wait for the mighty push of the Rajiv Gandhi era. The motivations for the Rajiv Gandhi government, significantly

enough, sprung from a combination of administrative and political imperatives. In part, it will be argued that the Rajiv Gandhi era sought to use decentralisation to further amplify and strengthen the powers of the central government or the ruling party at the expense of the administrative powers of the state or regional governments. In effect, the internal logic of Rajiv's decentralisation initiatives remained overwhelmingly political, aimed essentially at expanding the capacity of the government at the centre.

1.1 British period (from mid-19th century to 1947)

British colonialism assembled and significantly structured modern governance systems and practices in India. During the course of the nineteenth century, in particular, some of the earliest ideas and plans for decentralised governance were put in place by the colonial authorities. It would be perhaps correct to trace the origins of modern local self-government in India to Ripon's reforms of 1882 as shall be discussed below. The administrative motivations of the colonial government, however, must be understood differently from those one might find in many current theories on decentralisation. In particular, the manner in which the discourse of decentralisation describe the latter in terms of being the antidote to 'the failing performance of the centralised state'. The British notion of decentralisation in India, in contrast, arose and was developed as part of the larger aim to further centralise administrative powers and control in their territorial possessions. As shall be examined below, the British administration aimed at centralising the state machinery in rural areas by using the popular concept of 'local self-government'. To use the words of Joel Migdal, the British government, in a sense, tried to increase its 'social control' by using local bodies to penetrate the countryside.

Despite the fact that British India was a unitary state based on a modern bureaucracy, police and an army, Mukarji argues that the colonial state was far from centralised but more decentralised than the post independent India (1996). From the

administrative point of view, Mukarji attributes this mainly to the fact that local problems were left to be managed by elite bureaucrats in provincial governments as well as 'ruler model' districts (Mukarji 1996: 261-262; Das 1998: 127). Despite the hierarchical structure of the colonial government, in practice, it was almost impossible for the Secretary of State for India located in London to have full control over the actual functions of the administration, that was spread over the vast subcontinent and divided into several Presidencies and Provinces (Dewey 1993: 3-5). Part of the reason that the British established an elite bureaucratic system, the Indian Civil Services (ICS)¹ lies in this difficulty to control the huge administrative machinery. The colonial state required trustworthy and competent agents to whom it could then entrust the task of protecting the many interests that often lay in scattered and isolated stations of the empire. The administrative core was in fact made up of a relatively small number of elite ICS officers, who were appointed to the top echelons of the central, provincial and the district administration. These officers often held certain discretionary powers.² Describing such powers unique to the ICS, the Simon Commission reported in 1930:

'The services [ICS] grew up under a regime which permitted, and even fostered, initiative and resource to an extent unknown, and indeed impossible, in the civil service of a concentrated democracy like our own. The isolation of the individual official – the sudden call for personal decision – the special knowledge of local conditions possessed by the officer on the spot...all these have made civil administration in India depend on the man, rather than on the machine. (cited in O'Malley 1965(1931): 172)³

While the elite bureaucracy was highly centralised through the ICS spread all over the

¹ ICS officers were recruited in London and after one year of training there, they were appointed to each provinces or presidencies and thereafter transferred only within the province/presidency except for the occasion of deputation to the central government. Similar system is inherited by Indian Administrative Services (IAS) currently working. Although there were more than 10% Indian officers (average from 1894-1922), the examination for ICS was never held in India until 1922 and Indian candidates had to travel to London to take the examination (Maheshwari 2005: 31-32).

² The strong reaction against the Ripon's 'liberal' reform in 1882 demonstrates how powerful these district officers used to be. Tinker illustrates the district officers' resistance as follows; '[i]n India of 1882, the Viceroy [Ripon] was almost alone in his liberalism; the vast majority of local Anglo-Indian officials were conservatives, supporters of a 'paternal' administration, so that the reforms projected by Ripon were attenuated, or even ignored by the provincial governments and district officers who were responsible for putting them into practice.' (Tinker 1967(1954): 43-44)

³ For similar views on the major role played by the individual officers 'personifying' the government itself, see Blunt (1937: 119) and O'Mally (1965 (1931): 163).

territory, the colonial government in India as a whole had a decentralised feature. More precisely, it was a case of deconcentration, in which individual ICS rather than administrative organisations exercised considerable amount of discretionary powers at the district level.

1.1.1 Development of District Administration

The basic units of the British administration had been the districts. The districts had long been at the lowest level of the government structure, where as much as 50% of ICS officers were stationed during the British rule (Potter 1986: 22).⁴ District administration was headed by the District Officer, who was an ICS officer.⁵ The district officer was also called District Collector or District Magistrate and as their names suggest, their major role was to collect land revenue and to maintain law and order as the head of the whole administration in the district including the police.⁶ Entrusted the task of protecting the interests of empire, they were the officers who actually had contact with the rural population and commanded several teams of subordinate administrative functionaries.

The legend of the District Collector playing a heroic role in the development of colonial rural India has been widely published and commented upon, especially as memoirs by ex-ICS officers.⁷ Although it cannot be denied that District Collector

⁴ Whereas IAS tends to serve more in the State secretariat and only 25% remains in districts (Potter 1986: 213).

⁵ This post still remains as the top of the district administration and is succeeded by the Indian Administrative Services (IAS) officers.

⁶ The Collector's control over police administration was diluted after the separation of the police from the magistracy in 1861, although the Superintendent of Police remained formally under the control of Magistrate-Collector. Misra argues that it affected adversely to the Collector's ability to gather local information (1983: 81)

⁷ For instance; 'Milton was once impelled by national pride to say that when God wishes to have some hard thing done, he sends for His Englishman. In India it may more truly be said that when the Government wants a hard bit of work done, it calls on the District Officer. He is the man to whom fall all sorts of miscellaneous jobs, such as the taking of the census, preparing an electoral roll for his district, providing supplies for troops marching through it, etc. He has not only to discharge the everyday duties of administration (many of them dull, petty and uninteresting), but also to cope with sudden emergencies of extraordinary diversity. He may sometimes, when overburdened with work, grumble that he has the life of a dog, but he knows that he has the work of a man (O'Mally 1931: 163).' '[T]he district officer, to the people of his district, is not merely the representative of government: he is Government personified, and is often addressed as Sarkar, its vernacular equivalent. 'The great mass of the people desire personal rule,' wrote the Simon

exercised considerable degree of government powers, such stories, as Potter rightly points out, often tend to overrate their role (1986: 43). First, their presence was limited geographically to small areas or headquarters and they had to serve much larger area than the current counterparts do.⁸ The limited modes of transportation must also have restricted their presence in remote areas.

Second, they had to largely depend on local landed elites such as *zamindars* or *talukdars* to collect land revenue. For District Collectors whose tenure was often very short, from a few months to less than three years, it was imperative to collaborate with *zamindars* in order to collect revenues efficiently. It was an option, much cheaper, easier and safer than building an entirely new system of revenue collection.⁹ As a result, villages remained under the control of *zamindars* or *talukdars*. Even in the *ryotwari* areas in the South, where the district administration was said to have directly dealt with cultivators, the situation was more or less similar (Washbrook 1973). The colonial administration, as against the post independence administration primarily focused on revenue collection, because of which its interactions with the local populace was limited to certain aspects of rural life while ‘in the normal life of a district it was Indians who did most of the ruling’ (Potter 1986: 43).¹⁰

commission in their report, and might have added that they understand no other rule. And for many years to come, by whatever constitution India may be ruled, no government will be able to do without the district officer (Blunt 1937: 119).’ Hurt and Harrison also gives brief review of many more such books (1980: xxxi-xxxii)

⁸ There were 245 districts (including Pakistan and Bangladesh) in 1909 (Royal Commission on Decentralisation Report (1909) cited in Misra (1983: 153)), and the number has increased to 589 (2001 Census).

⁹ It was cheaper and easier as the revenue officers only had to translate and apply the vernacular terms of the long-established revenue administration and allowed the traditional middlemen, such as *zamindars* or *mirasidars*, to continuously collect the land revenue. It was safer as the stability was, in a sense, guaranteed by the local landed elites as long as they left the traditional local power relations as it had been for many centuries prior to the British rule.

¹⁰ In fact, this non-interventionist policy can be seen in many former colonial Third World countries. Joel Migdal argues that this non-interventionist policy along with several other conditions could lead to the weakness of the post independent regimes in some Third World countries (Migdal 1988). Using a concept of ‘social control’ (Ibid: 22), Migdal argues that the ‘weak’ states tend to have allowed ‘middlemen’ such as *zamindars* in the case of parts of India or ‘chiefs’ in the case of Sierra Leone, to continue to rule their own territories on the conditions that they pay land revenue and provide security in their territories for the colonial state. This arrangement in effect prevented the state from penetrating society down to the village level and regulating rural population directly, which eventually resulted in undermining state capabilities.

1.1.2 Increased demands for self-sufficient local bodies

This situation, however, had gradually changed in the latter half of the nineteenth century. In the post-Mutiny colonial regime, the emphasis was increasingly put on consolidating the basis of its rule, increasing accuracy in land revenue collection and improving security in rural areas by monopolising coercion through the police force and enforcing rule of law, which, in Joel Migdal's words, embodied 'a triad of essential state tentacles' (Migdal 1988: 22). However it also became increasingly clear that land revenue could not be the stable and major resources of the colonial state because of the repeated crop failures as well as serious indebtedness of peasants which had gradually been recognised as serious problems for government.¹¹ Therefore attempts were made to find alternative revenue sources. Gradually the idea of local self-government financed by additional local tax had emerged as a possible solution to the mounting pressure on the finances of empire.

Slow and geographically limited progress had been witnessed especially in the development of larger municipalities since the creation of Madras Corporation in 1687 during the days of East India Company. The development of rural local bodies, the focus of this study, had to wait for another century, but the basic idea was drawn from the earlier experiences of the municipalities. The drive for building rural local bodies was based on the expectation for increased tax revenue from these bodies. 'Funds were needed for the carrying on of administration and it was felt that it would be easier to collect taxes if Indians were associated in some manner with their imposition' (GOI 1951: 7).

¹¹ The largest source of the revenue of the British India had been land revenue, the trend which had never been changed since the time of Company Raj. It remained to consist more than 50% of the entire revenue in 1858 while it was decreased from more than 70% in 1834 when under the rule of the East India Company (Misra 1983: 198).

First of a series of decentralisation reforms was the Lord Mayo's Resolution in 1870 on financial reforms. It aimed at 'fiscal decentralisation', in which the Government of India devolved certain departments of administration such as education, medical services and roads, to the provincial governments. The provincial governments received from the Government of India a grant *smaller than the actual expenditure* on these departments and were expected to meet the balance by local taxation (GOI 1951: 8). This financial incentive by the Government of India appears to have been effective and all the provincial governments immediately introduced local bodies to administer 'local funds' following this Resolution. Madras Presidency in 1871 introduced 'local fund circles' under the presidency of the District Collector to administer newly introduced local taxation and various developmental works. In Bengal Presidency, Bengal District Road Cess Act was passed in 1871 to establish local committees with members both nominated and elected and to levy a rate on real property for the improvement of communications. Similar Acts were passed in other provinces, but the intension of the government was clearly in resource mobilisation without any participation of the local population. As in Bengal, some provinces made provisions to elect members to the committees but in practice, they were all nominated by the officials and in effect put under the control of District Collector (GOI 1930: 1061). Although various local taxes were introduced, the main revenue was land cess, which was automatically added onto the land revenue. In this initial period of local bodies, the District Collector maximised its power in the countryside by more or less directly controlling the newly set up local funds.

In an attempt to reduce such official control over these bodies, Lord Ripon's Resolution in 1882 took initiatives for the development of 'representative' rural local bodies. Ripon claimed that he intended to give priority for political education rather than mere administrative efficiency. Ripon's Resolution in 1882 proposed to establish 'Rural Boards' at the tahsil/taluka (sub-district) level in addition to the already emerging District

Boards and to gradually introduce elections to make the chairman of the board non-official. For in most of the cases, the seats of District Boards chairmen had been occupied by the District Collector. The emphasis was laid on the extension of the network of local government institutions especially in rural areas and introduction of elections through which non-official members could be elected to form a majority in local bodies (GOI 1930: 1059). All the provinces adopted the elected principles for local bodies but often with many loopholes.¹²

Following these two major reforms formulated for the development of local bodies, several Government Resolutions were made to review the working of local bodies.¹³ In 1907, Royal Commission upon Decentralisation was set up to investigate the status of local bodies. The Commission Report submitted in 1909 found the resources of the local bodies were meagre as compared with the responsibilities rested on them. The solution, however, was suggested to be sought in rearranging the financial relationship between the local bodies and the provincial governments. The Report implied the meagre resources of the local bodies were the result of the reluctance of both the provincial government to devolve further financial powers to the local bodies and the local bodies to maximise their taxation powers. The provincial governments were recommended to give the whole amount of land cess to the local bodies without deducting for their own expenses and to reduce the responsibilities of the local bodies by taking back some of the tasks they devolved to the latter.¹⁴ The Report also advocated the supervision on the village authorities by the district officers rather than by the district boards and

¹² In Madras, election of presidents and vice-presidents 'could be allowed' to all the units of local bodies but where permission was not given, the Collector was to be *ex-officio* president of the district board. In Bombay, the power to appoint the president or allow him to be elected was left to the government. In Assam, elective principle was adopted but only to European residents but not to Indians (GOI 1930: 1063-64).

¹³ GOI (1951) mentions such Resolutions made in 1896, 1897 and 1915.

¹⁴ It was already pointed out in the Ripon's Resolution that since 1870 in some provinces, a portion of the local cesses had been deducted and utilised for provincial purposes (GOI 1951: 10). It was noted that provincial governments should apply the principle of 'fiscal decentralisation', which Lord Mayo had introduced, to their financial relations with local bodies.

recommended that the chairman of the latter be the District Collector. It was a clear setback from Ripon's progressive reform that tried to increase the number of non-official chairmen and to reduce official control over local bodies. The Commission specifically mentioned about the functions of 'village organisation' (GOI 1951: 18) but was reluctant to suggest uniform rules claiming that they should be determined by local circumstances. The Commission recommended that the functions of the village organisation be restricted to summary jurisdiction in petty civil and criminal cases, incurring of expenditure on the cleansing of villages and minor works, construction and maintenance of village school houses and some local control in respect of school management and so on. As for the financial resources of such village organisations, the Report found it inappropriate for the village organisations to impose new local taxation but recommended it should receive a portion of the land cess levied for local board purposes in the village.

Then the significant turn in decentralisation policy came with the Montagu Chelmsford Report on Indian Constitutional Reforms in 1918. The Report suggested that '[t]here should be, as far as possible, *complete* popular control in local bodies, and the largest possible independence for them of outside control' (cited in GOI 1930: 1065, *Italics* added). It was again advocated that representative local self-government should function independently from official control, which was in line with Ripon's Resolution in 1882. This radical turn in decentralisation policy came independently from the actual development at the local level, but was, in fact, a product of compromise the British government was forced to make in return for support during World War II. For nationalist leaders who had expected larger autonomy, however, it was considered to be an inappropriate and unhelpful offer. Under the newly introduced 'dyarchy', the matters pertaining to the local self-government were devolved onto the provincial government and official control over local bodies was removed. The Government of India stopped to issue any official instructions to provincial governments (GOI 1951: 33). With regards to

village panchayats, the resolution of 1918 followed the views of the Decentralisation Commission and pressed the provincial government to form village panchayats by paying attention to regional diversity in tradition.¹⁵ As a result, Bengal passed a Village Self-Government Act in 1919, Madras Village Panchayats Act¹⁶ followed in 1920 and so on, which became the prototype of the post-Independent development of village panchayats.

After almost a decade since the Montagu-Chelmsford Report, the Simon Commission Report reviewed the implementation of the reform in 1930. On the contrary to the recommendation to allow greater amount of freedom for local bodies in the Montagu-Chelmsford Report and the subsequent Government of India Act, 1919, the Simon Commission emphasised the necessity for the provincial governments to control local self-government authorities. The Commission found the prevalence of embezzlement by employees as a serious problem. It stated 'the management of the finances of local authorities has deteriorated since the Reforms' (cited in GOI 1951: 35). Drawing a lesson from the local governments in Great Britain, the Commission stressed the need for audit and inspection which would increase efficiency of local bodies administration. The Commission also remarked the financial difficulties faced by local bodies due to reluctance of local authorities to impose local taxes or to increase the amount of cess and mounting uncollected arrears of local taxes.

Undoubtedly one of the reasons for the failure ...is the poverty of the municipalities and the district boards. But it is not only actual poverty which cramps their resources but the reluctance of the elected members to impose local taxes. This is a feature by no means confined to India; indeed the willingness of a community to impose high taxation on itself for common needs is proof of a very advanced civic consciousness. In rural India, the method of financing district boards is, as we have seen, by an addition to the land tax. It is naturally difficult to get bodies composed of

¹⁵ The resolution typically evoked the image of Village Community in encouraging the provincial government to form village authorities, stating that village panchayats should not be viewed as 'mere mechanical adjuncts of local self-government but as associations designed to develop village corporate life on the basis of the intimacy existing between the inhabitants, who had not only common civic interest, but were also connected by ties of tradition and of blood' (GOI 1930: 1067).

¹⁶ For the impact that this Village Panchayats Act brought in the Madras village politics, see Chapter 5 of this thesis.

land-holders to increase the burden on themselves, and the tendency is to refrain from adding increased cesses and to demand larger subsidies from the provincial government. (cited in GOI 1951: 34-35)

Following the Government of India Act, 1935, provincial autonomy started, following which Provincial Legislatures in most provinces passed the Acts to enhance the powers and functions of local bodies. But the development of local bodies had been a very slow and geographically varied process especially for rural local bodies. This dismal record was truer to the development of the village organisations and whatever progress made was confined to a few provinces.

1.1.3 Evaluating Local Self- Government in British India

The actual numbers of village authorities¹⁷ are as follows (Table 1.1). It is very clear from the figures in the Table 1.1 that the overall coverage of such bodies was extremely limited covering only 2% of the total villages. The provinces such as United Provinces, Bengal and Madras had some advantage in terms of its coverage but the latter two provinces saw more progress in union boards at the sub-district level rather than at the village level. This suggests that despite the recommendations in many Reports and expectations extended to them, the development of village authorities was far from prevalent. Table 1.2 shows the numbers of the other local bodies, namely, municipalities, district boards, several sub-district boards and village authorities. It suggests most of the establishment of the local bodies were confined to municipalities and district boards.¹⁸ For most of the rural population in India in those days, the district boards were the closest local government. Yet, as the Decentralisation Commission reports, the dominant

¹⁷ The name of the smallest units of local self-government varied in each province. In Madras, there were both village panchayats for smaller areas and union boards at the sub-district level. In Bengal, Bihar and Orissa, there were union boards and union committees at the level larger than villages and village authorities in Assam. In the rest of the British territory had village panchayats except for Burma where there was no village authority existed. We will use the term 'village authorities' in this section to include all these organisations (GOI 1930: 1087).

¹⁸ The district boards are estimated to have covered more than 70% of all the (Misra 153).

Table 1.1: Number of village authorities in 1926

Province	No. of villages (in British territory)	No. of village authorities	Proportion of village authorities to the total number of villages
Madras	52,198	1,417 *	2.7%
Bombay	26,528	227	0.9%
Bengal	84,891	2,419 **	2.8%
United Provinces	104,347	4,772	4.6%
Punjab	34,119	323	0.9%
Burma	16,334	- ***	-
Bihar and Orissa	84,814	270 ****	0.3%
Central Provinces	39,024	80	0.2%
Assam	30,957	239	0.8%
Total	473,212	9,747	2.1%

* Including 434 union boards.

** Comprising 2,260 union boards and 159 union committees.

*** There are no village panchayats in Burma.

**** Including 150 union boards.

Source: (GOI 1930: 1087)

Table 1.2 Number of municipalities and rural boards in 1926

	Municipalities	District Boards	Taluk or Local or Circle Boards	Union Boards	Village Panchayats
Madras	80	24	129	484	933
Bombay	156	27	222	-	227
Bengal	115	26	82	2260	159
United Provinces	85	48	-	-	4772
Punjab	104	29	-	-	323
Burma	57 ?	?	?	-	-
Bihar and Orissa	58	19	46	?	270
Central Provinces	65	23	83	-	80
Assam	25	-	19	?	239
Total	745	196	581	2744	7003

Source: (GOI 1930: 1116-1119)

impression for the villagers was that **they received no benefit while they were taxed by the district boards** (Tinker 1967: 84).

Besides the limited area coverage of the rural local bodies, the experiment of these new institutions under the British rule was not flourishing and their role and functions remained insignificant. The reason of the dismal performance can be attributed to the following four factors.

First and the biggest impediment was, as repeated in many official reports, their financial scarcity. Apart from compulsory local cess which was added to the existing land revenue, local self-government generally failed to raise income from new taxes. Even the relatively advanced municipalities had suffered with heavy arrears of revenue. *Indian Taxation Enquiry Committee* examined the reasons of these heavy arrears while citing the resolution issued by the Bombay Government in 1920-21:

The arrears are principally due to –

- (1) lack of interest on the part of councillors, who are often among the last to pay up;
- (2) lack of courage on the part of the municipal staff; and
- (3) failure to use coercive processes and impose penalties for late payment.

The fault is really with the president and the councillors, as it is impossible to expect the staff to be firm in making demands, when the councillors will not sanction penalties, and are themselves slow in paying. (GOI 1928: 324-5)

The *Enquiry Committee* agreed with the Government's view that unless the inefficiency of collection was overcome, 'the finances of municipalities will end in a hopeless muddle' (*Ibid.*: 325). The District Collector often found it easier to persuade the 'leading citizens' to donate for the construction of drains or other works rather than imposing tax to the general citizens. The local elites 'would co-operate if they could see their money laid out in bricks and mortar, whereas they would resist strongly a tax whose purpose they did not understand' (Tinker 1967: 28), although even such 'cooperation' was not possible once the situation changed with the intensification of nationalist movement. The result was local bodies especially after the reform of 1919 suffered from financial

deficiency and also for other reasons below, many of these local bodies had turned inactive.

Second, despite the 'liberal' attempt to reform the local self-government initiated by Ripon, it was deeply emasculated by the local administration when such reform was actually implemented. The officials at the provincial and district level reacted strongly against Ripon's proposal. Although most posts of the chairmen were replaced by non-official citizens in many municipalities, it was not the case for most of the District Boards till as late as 1921 and the chairman's position in the District Boards was usually occupied by the District Collectors.¹⁹ Even in the case of non-official chairman, they tended to be controlled by the district officials and did not have free-hand management over the administration. Most district officers did not see any interest in the development of the District Board nor extend their support to the Board. A former ICS with retrospective understanding answered in an interview as follows.

If... there was 'much delay, inattention, nepotism and often misconduct' among committee [district boards] members, they were all subject to pressures, having to reconcile the Government's insistence on reasonably efficient administration with the private claims of relatives and constituents and risk of exposure to [political] blackmail by the more exigent of these...[W]e were perhaps too puritanical in condemnation of lapses and not sufficiently inclined to try to foster and encourage what was really a plant of alien origin.' (Hurt and Harrison 1980: 103)²⁰

While some District Collectors were indifferent and unhelpful to the development of the District Boards, others actively manipulated the institution as a political instrument to tilt the local power structure for the benefit of the British government. An ICS from Bengal admits that he, as a nominated member of the District Board, helped a group of members in the Board to get 'the award of a contract for metalling [paving] a good

¹⁹ Following the Montagu-Chelmsford Report, however, by 1923, majority of the chairmen of district boards became non-officials (Tinker 1967(1954): 92, 119, 125).

²⁰ Similar indifferent view on local bodies can be seen in the writing of Philip Mason (1985 (1953)). He describes the way in which a District Collector observed and complained about 'amateur' district board members estimated the cost of road construction in an 'unrealistic' way without providing any actual support to them. This incident was later accumulated to the extent the District Board threatened to proclaim civil disobedience. (Mason 1985: 304)

distance of the road' because one of them was considered a 'Government man' (Hurt and Harrison 1980: 102-103).

From the point of view of the local body members, lack of government assistance was perceived to be a crucial impediment for their activities. Sardar Vallabhbhai Patel, the first Home Minister in the independent India, was himself a member of a municipality. Addressing at the first conference of the local bodies of Gujarat, Patel condemned the government for withdrawing its support after the reform of 1919 while expanding the responsibilities of local bodies without extending its financial support. The administrative as well as financial jurisdiction between the government and local bodies was unclear and unsettled, causing conflict over administrative responsibilities and its financial resources (Chopra ed. 1991: 22-24). Faced with such confusion over the status of local bodies, district officials were either indifferent in the matters of local bodies or, tried to control over the proceedings of the local bodies in varied ways, neither of which helped the local bodies to grow as local self-governments.

Third, changing election system had impeded the further development of the local bodies and while elections for representatives of district boards were gradually introduced, the impact was limited. Initially many of the early nationalists seized the opportunity and participated in the municipalities and, to a lesser extent, in the district boards. After the 1906 Act in United Provinces, for example, three-quarters of the board members were to be elected. However, the electorate was limited to 'fit persons' selected by *tehsildar*. Out of the population of three million in Gorakhpur district, the electorate was only four hundred, of which only sixty-two actually voted (Tinker 1967: 77). However limited the chances were, these elections certainly provided opportunities for the political aspirants to be trained in local political process and administration. Following the Morley Minto Reform in 1909, the half of the expanded provincial Legislative Council membership was provided to be elected from the members of local

bodies. Thus, for a short period subsequent to the Reform, local bodies functioned as an institution of 'political education', as envisaged long ago by Ripon. It was a short period to flourish, however, because of the following Montagu-Chelmsford Report's proposal on direct election for the Legislative Council members. Its proposal to introduce direct election by the general public on an enlarged franchise paradoxically undermined the position of local bodies because it in effect terminated the path of indirect election from the local bodies to the provincial legislatures. Hence, hereafter the political aspirants seek directly the seats in provincial Legislative Council but not through local bodies, which was increasingly seen as organisations without autonomous powers or financial viability.

Fourth and related to the third point is the timing of this series of reforms. The first non-cooperation movement was initiated in 1921, when the local self-government was about to flourish. It was the time of transition for the local bodies, following the Montagu Chelmsford reform, to reduce official control and expand non-official representation. Local politicians were caught in a dilemma, but the consequences forced many of them to boycott elections. Moreover, no-tax movements against local bodies hit the already weak local body finances. Sardar Patel expressed his confusion over the confiscation resulted from one-year of no-tax movement in Surat and Nadiad municipalities, Gujarat;

The confiscators are ours, *Mamlatdar* [President of the municipality] is also ours. The buyers of confiscated goods are also ours, those who have usurped the seats which have fallen vacant due to resignations of our men are also ours, and poor men whose goods are confiscated are also ours. Those who are making us play this game, are all throughout absent. (Chopra ed. 1990: 167)

For many nationalists, being part of the authority of local government while fighting against the foreign rule did not appear to be a coherent act. In the midst of the confusion in the growing nationalist movement, the opportunity for local bodies was lost. The pre-independence development of local self-government, in the words of Morris-Jones, was thus, 'somewhat inconclusive experience of marriage between local self-government and centralized bureaucracy' (Morris-Jones 1971: 24).

1.2 Post-independence period (from 1947 to mid-1960s)

The post independent government of India, namely operating under the strong influence of the first Prime Minister Jawaharlal Nehru (1947-64), sought to initiate several radical administrative strategies in the realm of decentralisation. The rhetoric on decentralisation this time around was located very substantially as being an integral part of the larger project of socio-economic transformation. This led to the government making huge investments for enhancing or strengthening the capacity of the local and rural administrative machinery. In particular, the increase of administrative personnel and infrastructure for programme such as agricultural extension and 'Community Development'.

Post-independence India retained much of the institutions for governance in form and substance from the British colonial state. In particular, the well-established network of public administration throughout the country was part of the most significant legacy of the latter. Governance in post-independence India was not unexpectedly faced with a number of complex challenges, which included maintaining national unity while achieving rapid economic development and reducing enormous economic inequality. The machinery to assume such complex tasks was sought in the highly organised bureaucracy which once was described as 'the iron frame' of the British Empire. Nehru, who had often severely criticised the elitist behaviour of ICS during the freedom struggle, increasingly inclined to retain the elite bureaucracy.²¹ Facing threats of segregation in

²¹ After the experiment of the first provincial governments, Nehru remarked in 1939 that: '[i]t [ICS] put obstacles and showed deliberate disloyalty to the Congress ministers. ... There are instances where this service or the bureaucrats intentionally created trouble and deliberately flouted the instructions issued by the Congress ministries with the avowed object of bringing the Congress governments into disrepute. ... In a free India, such an incompetent and inefficient service will have to be abolished and done away with (Gopal ed.1981: 258-59).' It is a well known fact that Sardar Patel, the first Home Minister, played a major role in convincing Nehru of the significance of keeping the British bureaucratic legacy for the sake of national development. Patel reminded Nehru of the conditions attached to the transfer of the Secretary of State's Services to Indian control, in which there was 'an understanding' that the conditions of the service be 'safeguarded' (Potter 1986: 147).

Kashmir and in Hyderabad, Nehru had concerned more with the two national objectives; national unity and rapid economic development.

We are faced today in India with all manner of disruptive tendencies and forces. We have at the same time a strong urge for unity which is combating these forces of disruption. ...I am not merely referring to certain parts of India being cut off from the rest, but much more to other forces of a disruptive nature. Obviously the first essential for us to aim at is to *establish a stable and strong administration* which can combat the disruptive tendencies and at the same time push ahead the progressive forces in the country [*Italics added*].²²

This shift in priority in the mind of Nehru could perhaps have been significant in contributing to the inclusion of provisions for All-India Services in the new constitution. The status of ICS was thus secured and guaranteed in the constitution and this enabled the whole bureaucratic system of colonial India to be retained. However, the environment surrounding elite bureaucracy in the countryside drastically changed. The shift away from the regime of 'collection' to the so to speak regime of 'development' had brought noticeable changes in the entire mechanism of administration throughout the country. The post-independent regime of development, unlike the colonial predecessor, required increased presence and direct involvement of the state apparatus in the countryside.

For the state apparatus to successfully penetrate the countryside to directly face rural masses, state control over dominant social forces in the countryside, that is, landed elites, had now to be established. On the one hand, local self-government was to assume precisely this role of bringing 'social transformation' in rural India. On the other hand, the shift away from the regime of 'collection' to the regime of 'development' also affected the role of local self-government. Local self-government in post-independence India was thus, no more an instrument to serve for the expansion of the empire, but redefined its role to promote both 'rural social transformation' and economic development. However, the combination of 'social transformation' and 'development'

²² Letter to B. R. Ambedkar dated on May 22 1947 (Gopal ed. 1984:197).

with local self-government was not clearly articulated from the beginning and this owes much to Nehru's personal ideas on development and democracy.

1.2.1 Debates over panchayats

The history of panchayati raj in post independent India started with the Constituent Assembly debate between 1945 and 1947. The influential Gandhi's idea of *Gram Swaraj* (village self-rule) captured attention and the debate was by and large between Gandhians and modernist Ambedkar who argued against the former's idealistic view of village autonomy.²³ The debate, however, resulted only in somewhat moderating the provision of the constitution on local self-government. The Article 40 provided that the 'village panchayat' to be endowed with powers 'to function as units of self-government'. This provision furthermore was included in the Directive Principles of State Policy, or in other words, 'the constitution's basket of ineffectual good intentions' (Kaviraj 1996: 135). There was in effect no constitutional guarantee on the actual status of village panchayat or other PRI. E. M. S. Namboodilipad, the Chief Minister of Kerala (1957-59, 1967-69), later criticised that '[d]emocracy at the Central and State levels, but bureaucracy at all lower levels – this is the essence of Indian polity as spelt out in the Constitution' (GOI 1978: 160). Although the debate resulted in the provision of Article 40, it is often described as a compromise between communitarian Gandhians and modernist Ambedkar, the reality seems to be that there was not much actual conflict between the two. Jayaprakash Narayan later rightly suggestively hinted at what might have happened in the minds of the political leaders then;

There was, perhaps, a sub-conscious thought in the minds of the political leaders who followed Gandhiji that while in the enforced condition of disarmament of the Indian people, Gandhiji's technique and philosophy of Satyagraha [reaching truth, self-control] were useful in the struggle

²³ For summary of well-quoted arguments, see Mathew (1994: 4-6).

for freedom, his ideas were not relevant to the tasks of post-freedom reconstruction. This thought was never clearly formed in the minds of the political leaders, who would have most indignantly rejected any such suggestion. I suspect, however, that from the beginning that sub-conscious thought has influenced the practical policies that the new rulers of the country have followed since independence (Foreword in AVARD 1962: 9).

In other words, development and reconstruction of the country's economy captured more attention of political leaders at the time rather than the need for consolidating the country's democratic basis through local self-government.

Despite the ambiguous status of PRI in the constitution, the first wave of decentralisation was to emerge from a different set of imperatives a decade after independence. The First Five-Year Plan (1951-1956) put emphasis on agriculture and food production. The prescribed programmes in this direction included Community Development, the propagation of modern agricultural technology through National Extension Services (NES), setting up of cooperatives and implementation of land reform. Especially the Community Development programme and NES primarily aimed at increasing food production through overall development of rural community. They involved development in many different areas such as agriculture, public health, rural engineering and women and children's programme. Community Development programme and NES were stated as 'the method' and 'the agency' respectively 'through which the First Five Year Plan seeks to initiate a process of transformation of the social and economic life of the villages (GOI 1952: 223)'. It was stressed that community involvement was the prerequisite to the economic development.²⁴ These policies were constituted as core elements in what Varshney terms 'Nehru's agrarian model' (Varshney 1995: 31).²⁵ Nehru's agrarian model was comprehensive, linking the problem of

²⁴ The Planning Commission also stressed that '[u]nless they [rural population] feel that a programme is theirs and value it as a practical contribution to their own welfare, no substantial results will be gained (GOI 1952: 223)', and so the aim 'should be to create in the rural population a burning desire for a higher standard of living – a will to live better (*Ibid*: 224)'.
²⁵ This 'Nehru's agrarian model' is articulated most clearly in Varshney (*ibid*) and supported by Chakravarty (1987: 21), Kaviraj (1995: 104-105) and Khilnani (1998: 78-79).

agricultural production with the social and economic transformation of rural life. The crucial point of this model is that the redistribution of land was considered to contribute to reduce rural inequality and to give incentives to farmers to increase productivity (Khilnani 1999: 78). It should be noted, however, that despite his inclination to socialism, the objective of Nehru's model was not in the collectivisation or nationalisation of land.²⁶ Since democracy itself was a sacred value for Nehru, the priority was to increase food production *within* the framework of democracy and private ownership of land. In 'Nehru's agrarian model', local self-government was expected to ensure the proper implementation of land reforms and the proper functioning of cooperatives so that they were run 'according to the collective interests of the village, not according to those of the privileged few (Varshney 1995: 32).' The rural poor was expected to be empowered enough to do so through the democratic process of election in which 'the numerically preponderant rural poor' would prevail (*ibid*: 34).

At the basis of this agrarian model was Nehru's firm belief in the cooperative life in village.

Collectivism involves communal undertakings and cooperative effort. This...is fully in harmony with old Indian social conceptions, which were all based on the idea of the group. The decay of the group system under British rule, and especially of the self-governing village, has caused deep injury to the Indian masses, even more psychological than economic. ... But still the village holds together by some invisible link, and old memories revive. It should be easily possible to take advantage of these age-long traditions and to build up communal and cooperative concerns in the land and in small industry (Nehru 1982 (1964): 522-523).

His admiration of the cooperative feature of traditional village community evokes the

²⁶ Nehru was apparently cautious about radical alteration of land ownership. In a letter dated on May 22 1947 replying to Ambedkar who proposed the collective farming based on state ownership of land, he wrote; 'I have no doubt that agriculture will have to be carried, on a large scale, on cooperative or collective basis in the future, though I rather doubt if we can rule out completely relatively small-scale private holdings. In any event, such a major change in agriculture can only be brought about either by fairly general consent of the parties concerned (and in this I do not include the big landlord), or else by some kind of dictatorial compulsion. I am opposed to the latter and, in any event, I do not think it is feasible. I doubt greatly if we can get this general consent from the peasantry till the matter is sufficiently made clear to them and till they see for themselves cooperatives and may be collectives in action. Any premature attempt might lead to failure on a wide scale which we might be totally incapable of facing. (Gopal ed. 1984: 197)'

literature on 'Village Community' by several British observers in the nineteenth century.²⁷ Nehru merged the idea of 'Village Community' and his notion of socialism into his original idea of cooperative village life. However, just as his British predecessors did, he appeared to have failed in appreciating the diversity within the village, that is, the division between the landed elite and landless peasants or between the powerful dominant caste and lower castes and marginalised groups. Although Nehru had repeatedly expressed his concern over economic inequality among rural population as a serious threat to India's future, his argument did not pose an understanding on the cause of such economic inequality, or, the politics within the village. He tried instead to understand the problem of inequality in terms of economic or at most social problem which could be solved by the initiative of panchayats and cooperatives. Panchayats were, in a sense, passed 'the burden' of land reform from the national leadership (Khilnani 1999: 79). Nehru hoped they would alter the traditional social structure in villages and 'form the basis of a progressive agrarian structure', which will then expand food production (Chakravarty 1987: 21). It was, however, too large a task for panchayats which were, according to Daniel Thorner, 'either weak and timid, or... are an instrument of the local landholders (1980 (1953): 165)'. Thorner foresaw as early as in 1953 that '[i]t hardly seems appropriate to thrust the land reform problem at the village level into the laps of such panchayats (*Ibid*: 165)'. The very basis of Nehru's agrarian model thus, had contained some significant contradiction.

While the land reform was successful to a certain extent in abolishing *zamindar*, it was far from successful in implementing land ceiling and redistributing the land of large-scale landlords. Obligation to legislate land reform was imposed on State

²⁷ There is a series of literature by British officials as well as researchers including Henry Maine, Charles Metcalf in the early nineteenth century which enthusiastically argued over the notion of self-sustaining Village Community, often called panchayat. Most of them glorified the self-sustainability of such 'Community' while neglecting social discrepancies based on caste and land-holding. For recent critique about this line of literature, see Bates (2005).

governments by the central government as the former had constitutional jurisdiction on agriculture. Legislators of State governments, on the other hand, were increasingly dependent on the vote gathering capacity of local landed classes, which enhanced their control over local resources especially after the abolition of *zamindars* (Kothari 1970: 127). State legislators could not afford to disturb these classes by imposing ceilings on land holdings. As a result, large-scale landlords escaped the regulation of land ceiling and survived by *benami* transactions – transfer of title to a friend or relative to evade ceilings on land holdings. From the view point of the ruling Congress party, on the one hand, there had been ‘no more likely opportunity’ than the first decade after independence when Congress ruled in all the states, to vigorously implement land ceilings (Khilnani 1999: 79). On the other hand, however, the rural bases of the Congress party were precisely this section of rural society which would be adversely affected by the land ceiling (Weiner 1967: 26, Kaviraj 1996: 123).²⁸ The most crucial part of Nehru’s agrarian model, and the essential condition of rural social transformation had failed largely due to the resistance by his party comrades in rural India. The Indian state, once again failed to establish effective social control over rural landed elites. This failure in the redistribution of land was to have a great implication not only to the effectiveness of Nehru’s model but also to the state capacity to reform rural India.

1.2.2 Experiments of Community Development

Community Development programme was initially started as a result of the Indo-U.S. Technical Co-operation Agreement in January 1952 and started in October, 1952 with 55 Community Development Projects.²⁹ One of the major changes rural India

²⁸ The large-scale redistribution was later witnessed in Kerala and West Bengal, both under the communist government. The fact that the Congress party was not an ideologically driven party but a broad coalition of various interests of urban and rural elites also worked adversely for the completion of land reform (Khilnani 1999: 79).

²⁹ The Agreement provided for the creation of the Central Committee to centralise the decision making process and to provide supervision of the projects. The Planning Commission was appointed as the Central Committee with the Prime Minister to head both organisations. The Director of the U.S. Technical Co-operation Administration in India also joined as the consultant.

experienced through these projects was the massive increase of government personnel at the level below the district. District was divided into several development blocks, each to cover an average population of 300,000. A newly created post of Block Development Officer (BDO) became the head of about 30 officials including a number of extension officers from various departments posted at the block office and responsible for implementing and coordinating various rural development schemes. While the District Collector³⁰ remained at the top of the district administration, the BDO became 'the second kingpin in district administration' (Maheshwari 2000: 100) by integrating a group of specialised Extension Officers of various departments at the block level. A Rural Community Project was estimated to require 125 personnel including 22 supervisory staff as well as 79 agricultural field workers who would introduce new technologies to farmers. The simple calculation sums up to roughly 6,900 new employment opportunities for the initial year. As of April 1959, the Community Project covered 2,548 blocks and the total number of personnel trained for Community Development programme was 48,543 (GOI 1960?).

The presence of government is felt on a new increased scale and in fresh areas of activity; government controls and regulates, it establishes bodies for the actual undertaking of industrial enterprises, it reaches down through its Community Development organization to the villages and does so not merely as policemen and tax-collector but as agent for the improvement of agriculture and the transformation of rural society. ... Government is everywhere and inescapable (Morris-Jones 1971: 18).

Apart from the increase in personnel, physical inputs such as irrigation or drinking water facilities also consisted the major part of the scheme.³¹ Community Development

³⁰ Also called as District Magistrate, he/she is the top IAS (Indian Administrative Services) officer of the district administration. IAS is one of the so-called All India Services, recruited by the central government and posted in the respective State government, where they serve until they retire. They consist the upper echelon of the State government as well as district administration. Apart from the District Collector, there are roughly less than five IAS officers stationed in the district. The rest of the public servants (the most of the officers in the local administration) working under the State government are the State administrative services that are recruited by and posted within the State government.

³¹ The maximum investment was allotted for the irrigation facilities and nearly one third of the total budget of Rs. 6.5

programme and NES were practically the first government action reached to the village level. Not surprisingly the schemes drew attention from both within and without the country and many were eager to evaluate the outcome.³² Target to cover the entire country under Community Development Programme was reported to have been achieved by October 1963 (GOI 1963: 100).

Regardless of the popular enthusiasm and achievement claimed in the official reports, there was an intrinsic gap between Nehru's rather comprehensive agrarian model and the reality.³³ Contrary to its objective of bringing about social transformation by promoting development projects in multiple areas, best organised activities were restricted to the area of technical improvement as well as increased inputs of fertilizer and new seeds. The study of two villages in western Uttar Pradesh by S. C. Dube revealed most of its benefits were directed to 'the more affluent and influential agriculturists' but the 'gains to poorer agriculturists were considerably smaller' (Dube 1958: 83). As the villagers seek more direct input that would incur immediate results, programmes such as public health and nutrition were not as popular as agricultural projects.

The programme also failed to mobilise popular participation as envisaged by Nehru. Especially local politicians were indifferent to the Community Development as a

million was allocated to the construction of new irrigation facilities or equipment for existing ones (GOI 1961). Road construction, drinking water facilities and educational facilities were among the major expenses that follow in the budget of a model project. Moreover, through the training of Village Level Workers and other extension officers, new agricultural technology including new seeds, fertilizers, pesticides and other 'improved practices' were introduced. Likewise, educational programmes on nutrition and family planning were also conducted.

³² Programme Evaluation Organization funded by Ford Foundation issued a detailed annual evaluation of the Community Development. Several teams from United Nations and Ford Foundation conducted respective evaluation (GOI 1957b; Taylor 1956). More comprehensive evaluation was carried out by the Team for the Study of Community Development Programme and National Extension Services, popularly known as Balwantrao Mehta Committee which published its report in 1957. Apart from official reports, there are numerous evaluation reports and analysis by independent scholars such as Dube (1958), Khan (1964) and Jain (1985) to name a few.

³³ Behind this gap between model and reality, there was also a conflict in approach between the Central Committee in the Planning Commission and the Ministry of Community Development. S. K. Dey, the first Minister of Community Development was a mechanical engineer and was appointed to the post of Minister due to his dedication and achievement in the well-known Nilokheri Project, originally a small refugee resettlement centre in West Bengal (Dube 1958). The diary of S. K. Dey illustrates his efforts and dilemma to put Nehru's idea into practice (Dey 1962).

movement for social transformation. A journalist reports that while touring around the Community Project areas in part of current Madhya Pradesh, he did not see any Congress workers involved in the Project activities and interviewed one leader:

“It is natural,” said a farseeing Congress leader, “that...those who shout Jawaharlal Nehru ki jai [Long live Jawaharlal Nehru] (at public functions) will vote for the candidates he puts up. We do not have to bother for villagers’ votes while Mr. Nehru lives.” ...the chances of the Congress being dislodged while Mr. Nehru lives and the community programme continues are remote (GOI 1956a: 7-8).

Following the failing results of the land reform, the core of Nehru’s agrarian model, it became obvious that even Nehru’s leadership could not defeat the resistance of local Congress leaders. The new approach of ‘development’ through community involvement did not bring about more than partial adaptation of new agricultural technology and the initiative of the ‘community’ was rarely materialised. Community Development remained to be a mere government scheme in which the priority for officials was to achieve physical as well as financial targets rather than to work under the initiative of community.

1.2.3 Emergence of the first wave of decentralisation

Following the initial stagnation of Community Development, the study team headed by Balwantrai Mehta was appointed to review the programme. The team found the failing results of Community Development was largely due to lack of active participation of the village people and recommended to the government in 1957 for democratic decentralisation. The team urged to promote transfer of the responsibility for planning and implementation of the programme to the democratic representatives of the rural population. In a sense, democratic decentralisation was demonstrated as a missing link in the Nehru’s agrarian model. As the Balwantrai Mehta committee was specifically appointed for the effective implementation of Community Development programmes and

NES, the committee especially stressed the role of *panchayat samiti* at the block level as an agent of the State government to implement development schemes.³⁴ For this purpose, the role of district boards or *zila parishad*, and the village panchayat where they existed was redefined so that '[a]ll Central and State funds spent in a block area should invariably be assigned to the *panchayat samiti* to be spent by it directly or indirectly' (GOI 1957a: 127).

Interestingly, in contrast to the strengthened *panchayat samiti*, the powers of district boards or *zila parishad*, were restricted and it was even recommended that the chairman of the *zila parishad* should be the district collector, the recommendation which is more retrograde even as compared with the Lord Ripon's resolution in 1882. At the village level, the role of village panchayat was redefined vis-à-vis that of Village Level Workers or *Gram Sevaks*. Village panchayat was to assume the basic administrative tasks such as water supply, sanitation and lighting while the development projects were to be coordinated by individual *Gram Sevaks* who would function as the 'development secretary' of the panchayat. Since the jurisdiction of *Gram Sevaks* tended to be larger than that of village panchayat, the *Gram Sevaks* were supposed to coordinate among several village panchayats. While *panchayat samiti* at the block level was recommended to be strengthened, at the district and village level, paradoxically, the official control, rather than the democratic control by the PRI, was strengthened. Significantly, Balwantrai Mehta Committee was cautious in expanding democratic decentralisation to the village level. It considered 'the intensification of factions and feuds' and 'separatism

³⁴ The committee found the village panchayat too small and district boards too large as an institution to carry out recommended functions of rural development without militating 'efficiency and economy' (GOI 1957a: 8). The committee also considered other alternative institutions, but '[t]he intention ... is to devolve power and responsibility on to a local body for the purpose of carrying out developmental activities in rural areas for which purpose the block has been specially brought into being' and hence, considered the *panchayat samiti* to be the appropriate body to devolve the powers of the State governments (*Ibid*: 9). It was also due to the consideration of the committee so as not to aggravate the factional or caste conflicts within the village that it did not actively recommend democratic decentralisation at the village level (*Ibid*: 18).

arising out of caste distinctions' as 'banes' resulted from democratisation of village administration (GOI 1957a: 18). Although the Committee could not provide clear-cut solution, it was obviously sympathetic to the attempts to hold elections to the village panchayats 'unanimously... so that they do not leave a trail of bitterness (*Ibid*: 19)'.³⁵ Village panchayats were considered as equivalent to the apolitical 'community' which should be kept out of conflicts of different interests.³⁶

As for the mobilisation of resources, there was much emphasis laid on the role of village panchayat rather than that of the *panchayat samiti*, whose main own resources were suggested to be the land cess inherited from the colonial administration. The commission recommended the functions of the village panchayat to be mostly resource mobilisation such as property or house tax, water and lighting rate. Overall, however, unlike the reports of colonial government, Balwantrao Mehta committee report paid limited attention on the panchayat's own resource mobilisation effort. The focus instead was put more on the question of how efficiently and effectively the development resources can be managed and utilised. The committee report was very clear on this part; '[t]he urgency for decentralisation is the greatest in the field of development and it is here that we consider that the panchayat should begin to operate with the least possible delay (GOI 1957a: 11)'. The role PRI is now expected to play is clearly not the one of resource mobilisation but that of *the agent of national development* with comparatively limited financial autonomy.

³⁵ The Committee cited an example of the former State of Saurashtra, erstwhile Gujarat, that 'created an organisation known as the "Madhyastha Mandal" for the purpose of ensuring that, as far as possible, elections to the village panchayats were unanimously held (GOI 1957a: 18-19)'. It concludes '[w]hile it will not be possible to adopt this arrangement in all circumstances, a study of it may lead State Governments to a satisfactory democratic solution of this problem (*Ibid*: 19)'.

³⁶ This view can also be seen in Nehru's understanding of 'Village Community'. Nehru believed so firmly in the 'collective' feature of village life that he went to the extent, at one point, to suggest the possibility of 'indirect elections' for the State and all-India level elections making the village as a basic electoral unit rather than individual villagers (Nehru 1982 (1964): 523). He argued that the indirect elections would provide 'a truer and more responsible representation' (*Ibid*: 523).

It is in this context that increased development funds through Community Development programmes were brought in to the district, especially at the development block level and enhanced the significance of the blocks and villages as a unit of political entity to allocate resources. While resource mobilization was no more the central objective of local self-government but now is regarded as an aspect of social transformation, it is the development projects and the allocation of such resources that capture the major interest of local self-government. The local self-government was, in a sense, transformed, if not minimised, to the body to expend resources poured from the governments but not the body to actively mobilise them.

1.2.4 Changed political scenario below the district level

Following the recommendation of the Barwantrai Mehta committee, most States introduced the new Panchayat Acts or amended the old ones. According to the recommendation, *panchayat samitis* at the block level were empowered as an agent of development. Since *panchayat samitis* were designed to distribute development funds provided from the government, they inevitably attracted attention of local political elites. What was witnessed with the introduction of new Panchayat Acts was the increased political competition as typically warned by Prud'homme (1995) and Tanzi (2002),³⁷ that is, local elites capturing the resources devolved to the newly empowered PRI. New opportunities with regards to control over new jobs, credit institutions, educational institutions and distribution of agricultural inputs appeared below the State level and quickly attracted local elites. The introduction of Community Development, NES and PRI had thus, developed 'an elaborate network of patronage' deep into the countryside (Kothari 1970: 127).

³⁷ See the literature review on decentralisation in Introduction.

Myron Weiner (1967) studied the effect of Panchayati Raj in a district in Andhra Pradesh. He observed that what panchayati raj meant in effect was that the patronage powers which had developed within local administration since after independence was 'transferred into political hands' (*Ibid*: 167). Increased role of local administration in terms of developmental activities after independence had created 'extraordinary patronage powers' to which local population sought access. These powers evolve around appointments to administration, admission to colleges, allocation of physical and financial inputs such as fertilizers, seeds and credit, and dispensing of contracts for the public works including construction of roads and wells. Due to the introduction of democratic local self-government system, such patronage system and the allocation of resources were re-channelled from the local administration to the PRI, especially to *panchayati samitis* at the block level. Since Community Development increased the significance of the *panchayati samiti* at the block level by channelling various goods and services, naturally, interest of local politicians concentrated at the *samiti*. Seeing the new opportunities added to *panchayati samiti*, local Congress leaders made great effort to have a control over *samiti*. Through this process, in Andhra Pradesh and most probably in many other States where the Congress party was in power, panchayati raj in effect functioned to strengthen the local organisation of the party.

At the village level, competitions were witnessed in a more informal manner. On the one hand, village panchayat had been expected to play a major role in the implementation of land reforms. On the other, Balwantrai Mehta Committee had been cautious in expanding democratic decentralisation to the village level anticipating the possibility of intensified factional conflicts within the community. There was a mixed assessment on whether or not unanimous decision with regards to the seats of village

panchayat presidents should be followed.³⁸ Despite such mixed assessment, many new Panchayat Acts empowered village panchayats more than ever before while their function was restricted to the supportive role for *panchayat samitis*.

In practice, however, the major constraint for the development of village panchayats was that the democratic principle of majority rule did not work in favour of the numerous masses as in theory. Ralph Retzlaff illustrates the contradiction of a newly installed 'democratic' institution of village panchayat in the State of Uttar Pradesh (1962). The pre-election arrangement have witnessed some hope for change as several caste groups other than dominant *rajput* attempted to unite themselves against numerically smaller but economically prosperous *rajputs*. However, the election was held by 'an open show of hands rather than by secret ballot' and despite widespread antagonism against *rajput*'s candidate, the latter was elected 'unanimously' the president (*Ibid*: 54-59).³⁹ Even after the introduction of secret ballot, the limited number of electorate at the village level made it a risky option for the weaker section of the village to vote against a dominant caste candidate.⁴⁰

The fact that the village panchayat fell in the hands of traditional dominant caste also adversely affected the panchayat's role in implementing land reform. In Uttar

³⁸ Some States even had introduced cash incentives to encourage unanimous decision making at the village panchayat elections. But the Committee on Panchayati Raj Elections stated they were 'against such 'artificial inducements for unanimity' while they were 'not against active propaganda and intelligent promotion of the spirit of unanimity and consensus (GOI 1965: 55).'

³⁹ *Report of the Committee on Panchayati Raj Elections* (GOI 1965) that studied panchayat elections in all States where panchayats existed, reports that elections 'by show of hands' were adopted in Assam, Jammu & Kashmir, Uttar Pradesh and Himachal Pradesh while the former three States later gave it up for obvious reasons explained in the case of Uttar Pradesh. However, it seems that this method of election was more prevalent than it was recognised in this report. The instance of 'an open show of hand' election and its negative implication for democracy were also reported by Weiner (1967) in the case of Andhra Pradesh.

⁴⁰ It is against such background that political parties expanded its influence in Andhra Pradesh (Weiner 1967: 171). On the one hand, the Communist party had increased its supporters among agricultural labourers in Andhra delta. On the other hand, the Congress party used its advantage of having a control over most of the *panchayati samitis*, and had 'often been particularly active in providing services for the scheduled castes that constitute a large proportion of the agricultural labourers' (*Ibid*: 171). Weiner attributes the decline of the Communist party in the 1962 elections in Guntur district to the increased services provided to the Harijans, or the scheduled castes, by the Congress controlled *panchayat samitis* (*Ibid*: 171). However, it was still difficult at the village level to overturn the age-long supremacy of dominant castes.

Pradesh, following the Consolidation of Holdings Act in 1953, Land Consolidation Committee was constituted and charged with the task to advise the Assistant Consolidation Officer, the administrative official in charge of implementation of the Act at the village level, with regards to information concerning village lands. The members of the village panchayat and the *pradhan*, or the president, were ‘drawn into participation, *in an official capacity*, with local problems of land ownership, utilization, transfer, etc., a subject which has long been the principal cause of disputes’ (Retzlaff: 1962: 54). In many instances, the oral evidence offered by the members of the Land Consolidation Committee, especially the *pradhan*, was the most influential factor in a case. With regards to the redistribution of the land which was freed following the abolition of *zamindars* and became the property of *gaon samaj* or village council, it was equally manipulated in favour of the ruling elites of the village. Due to the powerful influence of *rajput* over panchayat, it was impossible for either the village panchayat or *gaon samaj*, not to exclude dominant *rajput* caste from reacquiring the freed land (*Ibid.*). The facts that caste still remains as the divisive forces of community and land holdings still remain highly unequal, prevented the democratic institution to work as it was envisaged.

Contrary to the intention of Nehru, the failure of land reform, the very core of his model, resulted also in the failure of Community Development and PRI. PRI was captured by local landed elites who maximised their benefits through these institutions. Kaviraj well put the consequences; ‘[i]nstead of undermining the economic power of a small rural elite and empowering the poor, it [PRI] gave to the dominance of that elite itself the dubious seal of electoral approval, adding to economic effectiveness a new form of political legitimacy (1996: 105).’

By the early sixties, it was apparent that the Nehru’s agrarian model failed to achieve its objective. Increasingly the policy orientation shifted towards more intensive and technical approach to the problem of agricultural production. The Fourth Five Year

Plan (1961-65) marked a complete departure from the Nehru's agrarian model. A 'fresh consideration' was announced 'of the assumptions, methods, and techniques as well as the machinery of planning and plan implementation in the field of agriculture' (GOI 1964: 26 cited in Frankel 1971: 5). While social transformation designed by Nehru did not materialise as anticipated, post-independence rural India has certainly witnessed a shift in the way the powers were exhibited. The powers traditionally concentrated in the hands of privileged few, namely District Collector and large scale landlords (*zamindars*), were now shared by many specialised officials both at district and block level and also by newly emerging local politicians who made the most of the PRI. These changes in power relations at the local level are precisely what Kothari (1970) describes as 'diffusion'. Although the institutional power had certainly shifted downward, it was not in single direction but involved complex set of changes such as expanding public administration, multiplied role of local administration, reduced relative power of District Collector, and increased presence of local political leaders mainly from yet survived landed classes. In such an environment, it appears that even the increased state investment in rural development and 'democratic decentralisation' could not effectively create a credible institution for local self-government.

1.3 Decentralisation after Nehru up to the Janata government (1977-79)

As the development schemes increasingly departed from 'community' approach and more schemes concentrated on the integral development of the district as a whole, the very name of the Ministry in charge was renamed from the 'Ministry of Community Development' to the 'Ministry of Rural Development' in 1971. As Jain points out, this change in terminology marked the end of both 'community' and 'panchayats' as agents of social transformation as well as agencies for development (Jain 1985: 44).

Development, as it has always been in reality, has become an exclusive domain of public administration but not of democratic local self-government. On the one hand, ever more expanded district administration grafted on the colonial administration had been under pressure for radical reform or reorganisation since independence. The thorough investigation by the Administrative Reforms Commission, published its report in 1969, however, concluded that ‘as a result of our survey, we have generally come to the conclusion that there is nothing intrinsically wrong with it [district administration]. The system has stood the test of time and even though it was basically designed to meet the colonial needs of the British, it can continue to serve the needs of a welfare state also’ (GOI 1969: 209).

On the other hand, especially after the Congress party lost its control over State governments in the late 1960s, the option of whether or not to strengthen PRI in a State became increasingly dependent on the internal political environment in each State. For those who are in power at the State level, there is little interest in decentralization unless it gives prospects of assuring the maintenance of their power at the State level (Heller 2000; Brass 1994: 139).⁴¹ Just as the tension existing between the Centre and the State in a federal structure, there was tension between the State and PRI or the political leaders below the State level. However, unlike the Centre-State relations, in which the latter has gained certain bargaining power against the Centre, political leadership below the State level did not have effective instrument to strengthen their position vis-à-vis the State. In effect, both growing dominance of public administration and the political calculation by

⁴¹ Atul Kohli (1991) provides an example in the case of Andhra Pradesh. Rural panchayats were weakened during the chief ministership of Brahmananda Reddy (1963-1970) who aimed at consolidating his hold on factionalised panchayats by downgrading the powers of elected panchayat officials vis-à-vis those of the administrators, as the latter could be easily influenced through hierarchical administrative structure. When N. T. Rama Rao, popularly called NTR, became Chief Minister in 1983, he was fully aware his political base was weak depending solely on his charismatic popularity. Removing Congress’s control over the rural panchayats which were just elected in 1981 under the Congress government was a necessary option for NTR to strengthen his hold on power. In a manner possibly questioned its illegality, NTR removed village level panchayat officials and imposed parallel governmental structure, the District Planning Board to re-channel development funds from the Zilla panchayat. Such repeated manipulation by the State leadership, in effect, resulted in undermining the capacity of PRIs in the long run (*Ibid*: 88-90).

the State governments have resulted in undermining the position of PRI. This tendency was by and large continued throughout the 1970's and 1980's when elections to PRI had often been postponed.⁴² During the period of stalemate between the mid 1960's and the Constitutional Amendment in 1992, attempts for decentralisation by Janata government and Rajiv Gandhi government deserve some mentioning.

After the dramatic victory⁴³ in 1977 Lok Sabha elections, Janata government took the initiative to appoint a committee headed by Asoka Mehta to 'inquire into the working of the Panchayati Raj Institutions, and to suggest measures to strengthen them (GOI 1978: iii).' It was an attempt to mark a clear distinction from the preceding Congress government which had practically dismantled the PRI during a decade of rule by Indira Gandhi. The committee recommended 'two-tier' PRI, at the district and a lower level that was large enough to be a 'hub of developmental activities'. The emphasis was again put on the PRI's role as a development agency as was the case in Balwantrai Mehta committee report in 1957. One significant difference from the previous report in 1957 was that it recommended the involvement of political parties at all levels. The report states '[w]e have reached a stage of political evolution when it would be unrealistic to expect that political parties would keep themselves away from these elections' (GOI 1978: IV. 14. 1). By allowing the PRI elections to be contested on the political party basis, it was expected that the ruling party at the State level, which at that time mostly non-Congress parties, can mobilise maximum resources to win the panchayat elections so that they can effectively extend its influence in rural areas.

The Janata government at the centre was not successful enough to put this

⁴² While elections were held relatively regularly in Gujarat, Haryana and Madhya Pradesh, many States (Andhra Pradesh, Bihar, Maharashtra, Rajasthan and Tamil Nadu) had postponed elections for 6 to 16 years during this period (ISS 2000).

⁴³ 1977 Lok Sabha elections are often considered as the watershed in the Indian politics. They, in effect, demonstrated people's strong rejection against the authoritarian rule by Indira Gandhi who had imposed 'emergency' in India for nearly two years for the first time in Indian history. The case often is cited as a verification of the resilience of democracy in India.

recommendation into practice at all India level due to its short-lived unstable alliance at the centre and its weak basis at the State level. Yet, the Asoka Mehta committee report in 1977 encouraged a few State governments, namely, West Bengal in 1978, Karnataka in 1983 and Andhra Pradesh in 1987 to make legislative changes to empower PRI. Significantly, all these three States were ruled by non-Congress parties when they initiated the reform. As Paul Brass argues, the non-Congress State governments used PRI 'as instruments for establishing alternative rural power bases' for themselves (1994: 140). All three States naturally allowed the participation of political party in the PRI elections. Needless to add, all of them, namely CPI(M) of West Bengal in 1978, Janata party of Karnataka and Telugu Desam Party of Andhra Pradesh both in 1987 gained electoral success in respective panchayat elections. Not surprisingly, however, the opposition parties that later replaced these non-Congress State governments showed little interest in sustaining PRI as they identified this latter institution as a threat to maintaining their power. Thus in the period when numerous regional parties had emerged in many parts of India and increased their influence, political calculation at the State level rather than ideology of political parties overshadowed the development of PRI.⁴⁴ It had to wait for strong initiatives in the late 1980s of the youngest Prime Minister of India, Rajiv Gandhi.

1.4 Decentralisation under the Rajiv Gandhi government (1984-89): the 64th Constitutional Amendment Bill and Centre-State relations

In December 1984, two months after the assassination of Indira Gandhi, the Congress party led by Rajiv Gandhi returned to power with the biggest majority since

⁴⁴ This is clearly exemplified in the case of Karnataka. PRIs were drastically empowered by the Janata Party in 1987 with full collaboration with the local administration. They attracted many observers who studied them as a model. But the Congress State government that replaced the Janata government disregarded such reform initiative despite its initiative at the Centre to promote decentralisation. For the decay of Karnataka PRIs, see Vyasulu (2003).

independence; 415 out of 545 seats in Lok Sabha, the lower house of the parliament. The unprecedented majority in Lok Sabha allowed the new government to take bold steps for reforms. The emphasis laid by the Rajiv Gandhi government on economic reforms in the direction of more liberalised economy was distinct from any other preceding government.⁴⁵ Within two months after he assumed Prime Ministership, Rajiv Gandhi expressed his strong will for economic and administrative reforms in the televised speech. Rajiv Gandhi told that the government was going to take 'a judicious combination of deregulation, import liberalization and easier access to foreign technology (cited in Varshney 1999: 240)'. It was also claimed that such economic reforms required efficient and effective administration, which the Prime Minister himself bore the charge of heading the ministry for administrative reform:

'Administrative reform is crucial for social and economic transformation. It is for this reason that I decided to take under my own charge the Department of Personnel and Administrative Reforms. A full-scale review of administrative organisation, policies and procedures is in progress. I have asked that the decision-making process should be decentralised along with enforcement of accountability. ... We must create a new administrative culture for service of the masses. ... The public sector will continue to be a major tool of development. Deficiencies in performance, wherever they exist, will be quickly overcome...'⁴⁶

While stressing the necessity of administrative reform, the Rajiv government did not suggest altering the dominant role of the administration itself. Rather, it aimed at economic reforms through the initiatives of public administration. Social and economic transformation, which, in Nehru's model, was designed to be achieved by democratic local self-government, was now sought to be achieved through civil servants.

The historic majority in Lok Sabha freed the new government, if only 'illusionary', from 'coalitional entanglements and interest group pressures' and gave the government a

⁴⁵ It is true that the reform process was already initiated by the Janata government, but the scale and comprehensiveness of the reform was clearly less than the Rajiv government.

⁴⁶ Broadcasted speech of Rajiv Gandhi on January 5, 1985, cited in Lal (1994: 39). Similar points were made already on November 13, 1984 in the Prime Minister's first policy statement, which underlined the significance of administrative efficiency (*Ibid*: 36).

sense of 'autonomy'. With this sense of autonomy in the backing, the government showed strong initiative in transforming the state controlled economic model to 'a liberal model of development (Kohli 1989: 312)'.⁴⁷ There was a growing trend of insulating political leadership and its decision making process from pressures of electoral politics. This tendency was also witnessed in the process of the decentralisation reform in the Rajiv Gandhi government. First of all, the initiatives for decentralisation reform were not in the initial policy priority of the government. The decision was initiated following the recommendations of two committees; one of which was initially appointed for administrative reforms. In March 1985, the government appointed a committee to review the administrative arrangements for rural development and poverty alleviation with G. V. K. Rao as Chairman. The committee, along with several measures to reform administration, came up with suggestions to activate PRI, more specifically the Zila Parishad as 'the principal body for the management of all development programmes (GOI 1985)'. Following the recommendation, 'Prime Minister's responsive interest and emphatic initiative' (GOI 1986: 1) on the proposals led the government to appoint another committee with L. M. Singhvi as its chairman. This committee was appointed specifically to study and suggest on the revitalisation of the Panchayati Raj Institutions. Singhvi committee emphasised the significance of village panchayats as 'the republican base of our democratic nation' (*Ibid*: 8) and proposed to strengthen village panchayats by redirecting financial resources to them. A distinctive point in this report was that it proposed that PRI should be 'constitutionally recognised, protected and preserved by the inclusion of a new chapter in the Constitution' (*Ibid*: 10). It was, in fact, the first time

⁴⁷ Kohli well describes the sense of euphoria must have surrounded the new government at the time. 'The considerable sense of power, and the hurry in which it had been acquired, must have created a sense among the new rulers that they had *hijacked* the state. The state suddenly stood quite autonomously, seemingly free of societal constraints, ready to be used as a tool for imposing economic rationality upon the society. Situations of state autonomy like this always encourage the powerful to pursue their ideological whims (*Ibid*: 312).' As will be discussed below, this sense of 'autonomy' can explain well why the State leaders were disregarded in the decision making process on PRI reforms.

that the constitutional amendment was recommended in such a commission report for promoting decentralisation and PRI. In addition to these two committee reports, the Sarkaria Commission, appointed by the previous Congress government in 1983 to examine Centre-State Relations also submitted its report in 1988 in which it recommended the strengthening of the PRI.

While formally following the recommendation of the committees, the government had another imperative to pursue decentralisation reforms. As the economic reform proceeded and increasingly trespassed the areas that directly affected people's daily lives,⁴⁸ not only the opposition parties but also part of Congress party strongly objected to such policies as price hike of kerosene. Gradually a sense of disillusionment with the young Prime Minister began to spread. The continuous electoral losses of Congress party in State elections since March 1985, especially the loss in Haryana Legislative Assembly elections in May 1987 gave a big blow to the Rajiv government which was forced to take a major policy reversal (Kohli 1989: 315; Varshney 1999: 242-43). The sense of autonomy initially felt started eroding in the middle of the term of Rajiv Gandhi. The government was forced to deal with 'the pressure of electoral politics'. In such an environment, it perhaps appears to have been a reasonable option for the government to extend its appeal to the rural mass through the popular rhetoric on decentralisation of powers through PRI. Thus, the PRI, which have experienced different level of emphasis in each State, but have overall been inactive for more than two decades, suddenly regained attention of the central government in the late 1980s.

Yet the government was still reluctant to openly face the potential interest group, in this case, the State level leaders. The decentralisation reform instead was mainly pursued through administrative lines. Following the Singhvi committee report in 1986, Rajiv

⁴⁸ For instance, price hike of kerosene in February 1986 was reported to have been very unpopular (Varshney 1999).

Gandhi government took several steps before submitting the Constitutional Amendment Bill. In December 1987, Rajiv Gandhi started a series of 'consultations' with the District Collectors on 'Responsive Administration' at five different parts of the country until June 1988.⁴⁹ These workshops then concluded with a plan to revitalize the decaying Panchayati Raj system. The outcome of these meetings was then examined at a conference of Chief Secretaries⁵⁰ of each State and Secretaries to the Government of India in July 1988. Following this extensive dialogue with elite IAS officials, the discussion with the panchayat representatives from various States was conducted between January and April 1989. Three Panchayati Raj conferences were held in New Delhi, Calcutta and Bangalore with the participation of thousands of Panchayat representatives, which were then followed by sectional meetings with representatives of the Scheduled Castes, Scheduled Tribes and women in May 3-4, 1989 (Mukarji and Mathew 1992: 282).

In a much sharper contrast to the thorough discussion held with the bureaucrats and panchayat representatives, the dialogue with the political leaders of each State was very much limited and was held only in the last minute. The Conference of Chief Ministers on Panchayati Raj was hastily held on May 5, 1989, ten days prior to the introduction of the Bill (GOI 2004a). The last round of consultation was held at a special one-day meeting of the All India Congress (I) Committee on May 10 (Lal 1994: 14). Finally on May 15, 1989, the 64th Constitutional Amendment Bill on Panchayati Raj was introduced in the Lok Sabha. Thus, many felt the State governments were almost 'bypassed' in the process of preparing the Bill (Mukarji and Mathew 1992: 282). While the Rajiv Gandhi

⁴⁹ These meetings appeared to be held as a dialogue with the elite bureaucrats in which Rajiv Gandhi had specific message to convey rather than trying to induce certain agreement. In the first meeting held in Bhopal, Rajiv Gandhi told the officials that 'a bureaucratic administration could not be responsive until it was rooted in the democratic polity'. Evoking Nehru's words on village autonomy, Rajiv Gandhi went on to suggest a plan to revitalize the decaying Panchayati Raj system (cited in Lal 1994).

⁵⁰ Chief Secretary is the top most post of the State bureaucracy and necessarily an IAS cadre.

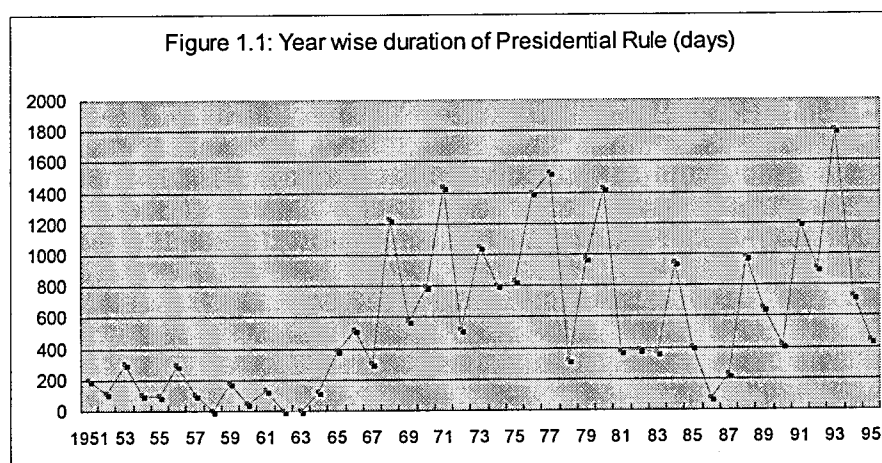
government had spent much time in consulting with the IAS officers and panchayat representatives, it in effect had avoided the direct interaction with the State leadership, a group who would be directly affected by the Bill until the last minute. Not surprisingly, as further documented below the State leaders expressed their resentment over the central government's disregard for themselves. The discontent ultimately resulted in the rejection of the Bill in the Rajya Sabha or the upper house in 1989. In fact, the reform of local self-government contained a sensitive issue directly linked to the longstanding problem of 'Centre-State relations'. In order to better understand the context of Rajiv Gandhi's decentralisation, it is perhaps helpful to first follow the trajectory of Centre-State relations in India.

1.4.1 Centre-State relations in the 1980s and PRI: Two Decentralisations

The 1980's was the period in which the long accumulated discontent of the State political leadership against the central leadership had begun to take shape. Among the sources of discontent, the major ones were the central government's arbitrary use of 'Presidential rule' and to a lesser extent, the measures of resource allocation set by the central Finance Commission and Planning Commission. Between 1983 and 1984, five conclaves of opposition parties were held in different parts of India to show the solidarity of State governments vis-à-vis the Central government. The conclaves dealt with the common problems with regard to the Centre-State relations and condemned the central government's active political interventions in Punjab, Jammu and Kashmir, and Pondicherry (Kondo 2000). Since the 1967 general elections, Congress party's dominance in States had started eroding and regional parties had begun to emerge. This trend of weakening control of the Congress party was accompanied by increasing application of Presidential rule since the Centre was compelled to control non-Congress

State governments (Figure 1.1). This tendency was most conspicuous during the regime of Indira Gandhi and to a lesser extent, the latter half of the Rajiv Gandhi regime. Threatened by the solidarity of non-Congress States, the then Prime Minister Indira Gandhi appointed in 1983 a commission headed by R. S. Sarkaria to study the Centre-State relationship in an attempt to contain such opposition. The so-called Sarkaria Commission took four and a half years to finally submit its lengthy report in 1988, which till today is a source of reference on Centre-State relations. When Rajiv Gandhi started a series of discussion with bureaucrats on decentralisation to PRI in 1987, the other decentralisation – decentralisation from the central government to the State governments – was still an unsettled sensitive issue.

Although the Sarkaria Commission report did not recommend any drastic constitutional change with regard to the Centre-State relations,⁵¹ it urged the installation of the Inter-State Council which was originally provided in the Article 263 of the Constitution. It also suggested that in order to prevent the excessive centralisation, some



Source: Kondo (2000: 69)

⁵¹ The report did not recommend any drastic changes in the long standing issues such as the Article 356 of the Constitution that provides the Presidential rule upon the recommendation of the Governor, Centrally Sponsored Schemes but restrained itself, for example, by saying CSS should be 'kept to a minimum' (154. 11.9.09) and the State governments 'should be fully involved in determining the contents and coverage' of the scheme (157. 11.9.12). (ISC website; <http://interstatecouncil.nic.in/>, accessed 15 December, 2005)

reforms towards decentralisation below the State level were required (Kondo 2000: 82).⁵² It was the first time that the issue of decentralisation below the State level was recommended by a commission in connection with the Centre-State relations. In a sense, the Commission advised to combine ‘two decentralisations’. Despite its guaranteed status in the Constitution, however, Rajiv Gandhi government showed no interest in setting up the Inter-State Council⁵³ nor implemented other recommendations with regard to the Centre-State relations, such as minimising the amount of and control over the centrally sponsored schemes (CSS). Meanwhile the Rajiv Gandhi government ‘exhibited surprising energy’ in promoting decentralisation below the States’ level (Mukarji and Mathew 1992: 281). In an unprecedented crisis for the Congress party to lose control over more than half States,⁵⁴ the idea of combining two decentralisations, that is, to connect PRI reforms with decentralisation from the Centre to the States, was not politically viable.

On the contrary, the opposition to the 64th Constitutional Amendment Bill insisted on combining the two and argued that meaningful decentralisation below the State level should be accompanied by ‘an equally meaningful decentralisation from the centre to the States (*Ibid*: 282)’. The opposition criticised the provision of the section 243H of the 64th Constitutional Amendment Bill⁵⁵ which allowed the Comptroller and Auditor-General of India to submit the account report of PRI to the Governor of the State. The provision, in a sense, gave an opportunity for the central government to intervene in the matters of PRI in each State through account audit. The Comptroller and

⁵² It was the second time that the installation of Inter-State Council was recommended by such committee, the first time being by the Administrative Reforms Commission in 1969 (Kondo 2000: 70).

⁵³ The Inter-State Council was set up only in 1990 by the successive National Front government led by V. P. Singh.

⁵⁴ Many formerly Congress dominant States were now ruled by non-Congress parties, including Andhra Pradesh, Assam, Haryana, Karnataka, Maharashtra and Punjab. Of which the leadership of Rajiv Gandhi was directly responsible to the loss of Assam, Haryana, Maharashtra and Punjab. Towards the end of Rajiv Gandhi regime, the Congress party was in power in 12 States out of 25.

⁵⁵ I depend on the version cited in Appendix B in P. K. Gupta (1994).

Auditor-General of India and the Governor who were considered as an agency of the central government⁵⁶ were going to conduct such audit. It is not surprising, therefore, that the proposed decentralisation reform of the Rajiv Gandhi government were viewed by many States as a mere interventionist attempt of the central government. The Congress party that had an unprecedented majority in the Lok Sabha, did not have a grip over many State governments and was losing more to the emerging regional parties. Non-Congress State governments were only six when Rajiv Gandhi came to power at the Centre, but by the end of his five-year term, they increased to nine in addition to six States against which the Presidential Rule was imposed.⁵⁷ Many leaders of non-Congress State governments openly criticised the 64th Constitutional Amendment Bill in 1989 as a move 'to centralise the powers in the name of decentralisation' (Madhya Pradesh Chief Minister, GOI 1990: 3) proposed 'without any detailed consultations on the provisions of the Bill' (Tamil Nadu Chief Minister, *Ibid*: 4) while few expressed their objections against the idea of constitutional amendment itself.⁵⁸

Due to such complexity of the Centre-State relations, Rajiv Gandhi had enough reason to be cautious when he convened the Conference of Chief Ministers on Panchayati Raj ten days prior to the introduction of the Bill. He said:

'There is no change proposed in either the State List or the Concurrent List [of the Constitution with regard to the jurisdiction of Centre and States]. There is no dilution proposed in the authority

⁵⁶ The power of the Governor has been the sensitive issue in the Centre-State relations. Since the appointment of a Governor is made by the President but with a recommendation of the Cabinet (or Prime Minister?), the ruling party at the Centre often used this position to manipulate State politics. Especially the Presidential Rule is imposed based on the recommendation of the Governor, which made the position of the latter problematic. Besides the section 243H, 243L also bestowed the Governor a discretionary power to extend the application of the Bill to the tribal dominant scheduled areas in the north-eastern States. These provisions are removed in the 73rd Constitutional Amendment which now provides the complete discretion in this matter to the respective State Legislature. See for critical assessment of the 64th Constitutional Amendment Bill, *Frontline*, June 17, 1994.

⁵⁷ Out of six States imposed the Presidential Rule, five States were ruled by non-Congress party.

⁵⁸ These views were expressed by the Chief Ministers at the Conference of Chief Ministers on Panchayati Raj, Urban Local Bodies, Land Reforms and Prevention of Tribal Land Alienation, held in June 11-12, 1990 by the Department of Rural Development, Ministry of Agriculture, Government of India. Chief Ministers of Tamil Nadu and Kerala expressed their objection against any constitutional amendment with regards to local self-government, but many, including non-Congress State governments supported the local self-government reform in the form of constitutional amendment (GOI 1990).

of the States. There is no diminution proposed in the legislative competence of State Legislatures. What we do propose is to usher in a revolution by according to Panchayati Raj a status commensurate with the vision of our freedom fighters, the injunctions of our founding fathers and the dreams of our nation-builders. ...It is a revolution based on maximum democracy and maximum devolution. It is a revolution to put power in the hands of the people.⁵⁹

It is obvious that the situation forced the Prime Minister to try to convince the State leaders that the reform was not intended to undermine the powers of State government. His rhetoric even recalled the 'vision of the freedom fighters' with some sense of passionate urgency in an attempt to justify the proposal of the Constitutional Amendment with regard to the State issue.⁶⁰ Rajiv Gandhi was trying to keep the issue of local self-government outside the traditional Centre-State relations by separating the two decentralisations. Despite his effort until the last minute, the 64th Constitutional Amendment Bill was rejected by five votes in the Rajya Sabha,⁶¹ the upper house, in which the ruling Congress party had not acquired two-thirds majority. Despite the attempt of Sarkaria Commission to theoretically combine the two decentralisations within the federal structure, such option was politically unacceptable for the Rajiv Gandhi government. Rajiv Gandhi was trying to adjust to the new reality of emerging non-Congress State governments, but could not get out of the traditional framework of Centre-State relationship. Decentralisation from the Centre to the States was one thing and decentralisation below the State level was quite another.

Decentralisation policy in the late 1980s under the Rajiv Gandhi government was an attempt to actually centralise the rural development agencies through the PRI. In this process State governments were sought to be sidelined and the increased tension between

⁵⁹ Cited in the speech of Mani Shankar Aiyar in 29 June 2004 (GOI 2004a).

⁶⁰ It should be reminded that PRIs are originally provided in the Constitution to be within the jurisdiction of the State but not the central government.

⁶¹ Members of Rajya Sabha are indirectly elected by the representatives of the Legislative Assembly in each State. In order to gain majority in Rajya Sabha, it is necessary to gain majority in many States. Having lost in many State Assembly elections, the Congress party did not have majority in Rajya Sabha. The rejection of the Constitutional Amendment Bill in the Rajya Sabha, in a sense, has a symbolic implication to reflect the opposition of the States.

the Centre-State had prevented comprehensive constitutional changes towards decentralisation below the State level.

1.5 Summary

Both the colonial regime and the post independence Nehruvian government pursued decentralisation strategy but their objective was different. While the British administration used the idea of 'local self-governments' to enable them chiefly to collect revenue, in the post independence decades the Nehruvian government sought to carry out specific types of social transformation through its Community Development programmes. The Community Development initiatives mainly through the panchayats, however, ended in some sort of stalemate as the Nehruvian government was not able to comprehensively circumvent the powers of the landlords or *zamindars* in the countryside. On the one hand, the Nehruvian government, unlike its colonial predecessor, successfully stretched the network of state apparatus deep into the countryside. On the other hand, both regimes failed in their attempts to achieve their respective objective mainly due to the resistance of rural elites.

By the late 1980s, the policy environment had significantly altered. Decentralisation policy in the late 1980s under the Rajiv Gandhi government was primarily an attempt to undermine the emerging political leadership of the States. By centralising the rural development agencies through the PRI, the State governments were sought to be sidelined. The increased tension between the Centre and the States had eventually prevented comprehensive constitutional changes towards decentralisation below the State level. While these three major attempts by the respective government had largely failed, PRI was gradually taking shape in parts of the country. The comprehensive reform to come into view in the 1990s was an outcome of this historical development that was traced in this chapter.

2 The 73rd Constitutional Amendment: The background and institutional changes

In this chapter, the background events and decisions that led to the enunciation of the 73rd amendment and the following institutional changes that actually took place will be explored. As discussed in Chapter 1, the 'stalemate' that characterised the early years of independence was sought to be overcome by various political regimes. The decentralisation reforms by the Rajiv Gandhi government was primarily an attempt to consolidate the powers of the central government or the ruling party at the expense of those of the State governments. In this process State governments were sought to be sidelined and the increased tension between the Centre-State had prevented comprehensive constitutional changes towards decentralisation below the State level.

By the early 1990's, however, the logic of rural decentralisation witnessed a tectonic shift in the Indian administrative landscape. The era of liberalisation worked to move decentralisation away from its overwhelming political imperatives to the new impetus drawn from 'economic reform'. The economic as well as political changes accompanied economic reform reshaped the Centre-State relations, which in turn appeared to have removed the impediment to the decentralisation reform below the State level. Economic imperatives of liberalisation have, in a sense, set the stage for a new round of comprehensive decentralisation reform.

The 73rd Constitutional Amendment finally materialised the idea of democratic decentralisation in 1992. The Amendment bestowed PRI 'powers and authority as may be necessary to enable them to function as institutions of self-government (243G)' and provided in the Constitution itself financial and administrative powers of PRI. Ironically, however, the significance of PRI as a local self-government appeared to have become somewhat outdated in the era of economic liberalisation. With the advent of economic reforms, Indian state and society have been exposed more to the discourse of

participatory decentralisation. In this changed scenario, actors in rural development were also pluralised with the increased emphasis on NGOs, private agencies, and various 'committees' set up by different development agencies. The constitutionally empowered PRI has become merely one of the agents to implement centrally sponsored schemes (CSS). This chapter will try to draw the outlines of the institutional changes that followed the 73rd Constitutional Amendment by shedding a light to a neglected aspect of PRI as a local self-government.

2.1 Changed political and economic environment for decentralisation

The 64th Constitutional Amendment Bill was revised and proposed again by the Narasimha Rao government in September 1991 as the 72nd Constitutional Amendment Bill. The Bill was passed in the end of 1992 and the 73rd (renumbered from the 72nd) Constitutional Amendment literally added a new chapter in the Constitution for rural local self-government. Due to its continuous policy making process, it is often taken for granted that the 73rd Constitutional Amendment and the following decentralisation reforms in the 1990s was a direct outcome of the local self-government reform initiated by Rajiv Gandhi government. It is true that both the 64th and 73rd (72nd) Constitutional Amendment Bills were proposed by the Congress government and many of the ideas and provisions of the latter were succeeded from the former. Nevertheless, decentralisation in the 1990s and that in the 1980s have a distinct feature that requires to be understood in a different historical context.

While Rajiv Gandhi decentralisation took place in a context of growing tension in the Centre-State relations, decentralisation in the 1990s occurred in a much larger context of reconfiguring the economic and political system of the country. The historic alteration of economic policies since 1991 has in fact marked a clear departure from the

so-called Nehruvian model of planned economy and hence, from the entire workings of the post-Independence government of India. Economic liberalisation and growing trend of coalition politics changed the dynamics of Centre-State relations and increased the bargaining power of the latter. This transformation at the national and the State level inevitably affected decentralisation to the local self-government. It is therefore necessary to understand how post-liberalisation India has been transformed in terms of its Centre-State relations, both economically and politically.

Economic changes occurred mainly within its financial devolution system through Central Finance Commissions. Over the 1990's, the central government has substantially reduced loans in the financing of the gross fiscal deficit of State governments (R. Kannan et. al. 2004: 480). The central government has also reduced debt relief¹ for the States throughout the 1990's. On the other hand, the Central Finance Commissions have increasingly been given tasks to regulate the financial activities of States and to recommend a restructuring of the public finance of both the Centre and the States². These changes have substantially transformed the Centre-State relations with the increased presence of market forces coinciding with the reduced economic interdependence between the Centre and the States. As a result, the central government has gradually receded from the position of a guarantee for States' debt while the States increased both its dependency on the market borrowing and interest payment. The level of interdependency between the Centre and the States in terms of financial transfers is becoming lower.

Such changes in financial relations between the Centre and the States coincided

¹ Debt relief has been extended by successive finance commissions by 'waiving of repayment and/or interest payment due, altering the terms of repayment, reducing interest rates and consolidating of loans' (Prasad et.al. 2004: 2735).

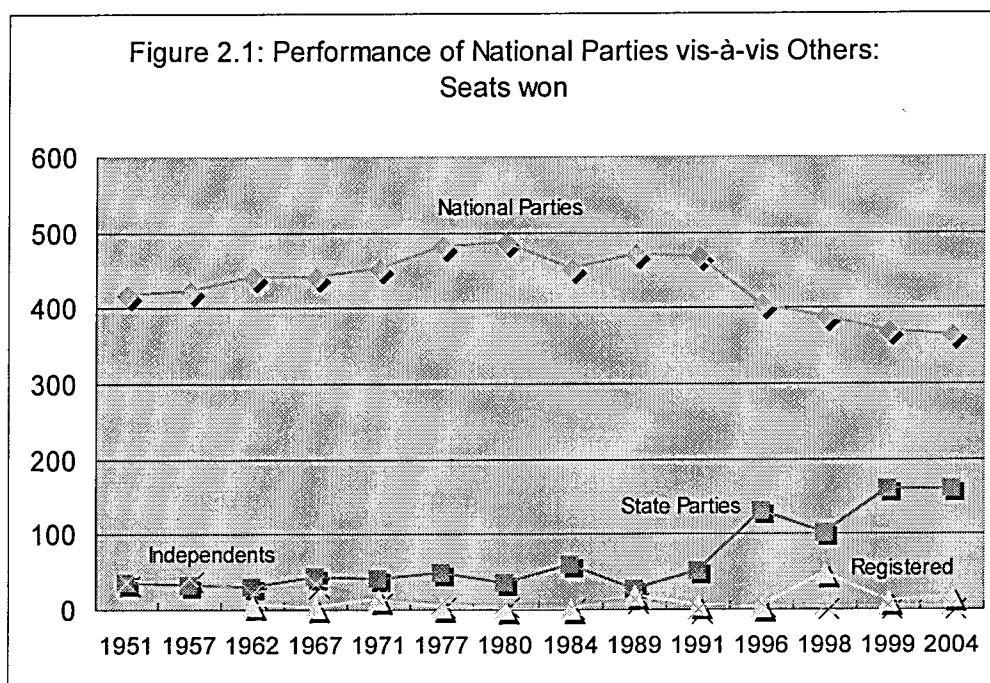
² The conventional tasks in terms of reference (TOR) of the Finance Commission with regard to the sharing of central tax revenue and the principles for allocating grants to the States still remain. On the other hand, however, it has increasingly been stressed that instead of the traditional 'gap-filling' approach to the revenue deficit, 'reducing fiscal deficit' and giving 'the scope for better fiscal management consistent with efficiency and economy in expenditure' should be taken into consideration (GOI 1994: 1).

with equally dynamic political changes. The Congress party's defeat in the 1989 Lok Sabha elections was, in fact, the beginning of an end to the one party dominant system that had continued since Independence although weakened considerably since 1977. One party dominant system that had been prevalent in India has coexisted with the centralised planned economy in which the Planning Commission formulated the national Five Year Plans that incorporated all State plans. The centralised planning system required coordination between the Centre and the States, which the Congress party had traditionally made sure by controlling both the central government and most State governments. While the centralised planning has endured in some way, it was obvious that this system had faced difficulties in coordinating different demands of States. Since March-April 1967, when non-Congress State governments first emerged in as many as eight States³, coordination between the Centre and States have increasingly become difficult. The gradual decay of the system has resulted in increased tension in the Centre-State relations as discussed earlier. It culminated in the creation of the coalition government after the 1989 General Elections, which opened a new era of coalitional politics in India.

The regional or State parties⁴ have gained more seats in the Lok Sabha than they did until the 1980s and have increasingly taken part in to form the government at the Centre (Figure 2.1). Clearly since 1991 Lok Sabha elections, State parties increased their share vis-à-vis national parties both in terms of percentage of votes and number of

³ These States includes Bihar, Goa, Kerala, Orissa, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal, out of which, except for Kerala, all States had been under Congress government till then (Nagaland had had Naga National Party government since 1963 till 1974).

⁴ As for the definition of 'State party', I would depend on the explanation of John Echeverri-Gent: 'Single-state parties are either identified with a regional culture that does not transcend state boundaries such as the Dravida Munnetra Kazhagam (DMK), All India Anna Dravida Munnetra Kazhagam (AIADMK), Telegu Desam Party (TDP), Shiromani Akali Dal, and Shiv Sena, etc., or they are led by political leaders like Laloo Prasad Yadav, Biju Patnaik, Mulayam Singh Yadav, and Mamata Banerjee whose personal following forms the core of party support but does not transcend state boundaries (2001: 3)'.



seats won⁵. In a coalition, no party has stable majority and each regional party plays a critical role in the management of the government. This, as often argued, has augmented the bargaining power of the regional political leaders, whose influence had till then been more or less limited within each State (Weiner 1999; Rudolph and Rudolph 2001a; Echeverri-Gent 2001). When this political change encountered economic liberalisation in 1991, it was merged into a major transformation of the political economy system. This is when, according to Rudolph and Rudolph, the ‘federal market economy’ was born:

Independent causal chains may have resulted in economic liberalisation and the transformation of the party system during the 1990s but, once in place, the two phenomena began to interact in

⁵ While this emergence of State parties is popularly attributed to the rise in regional sentiment against national parties, some point out this change has further been accelerated by the decay of the Congress party (Jenkins 1995; Weiner 1999). Emergence of regional sentiment had been demonstrated since much earlier, for instance, by DMK in Tamil Nadu since the 1960s and Shiromani Akali Dal in Punjab in the 1970s. On the other hand, Weiner points out that State parties gained Lok Sabha seats mainly in the areas where Bharatiya Janata Party (BJP) failed to replace Congress seats except for several States which had been ruled by non-Congress regional parties after 1967 (1999). Since the major political base of BJP is in the so-called Hindi belt including Rajasthan, Madhya Pradesh, Uttar Pradesh and Bihar, State parties emerged mainly in the rest of the area in the south, west, north-east. The Congress party has significantly lost its predominant position as a national party.

ways that proved mutually reinforcing. The dominant party system of the Nehru-Gandhi that enabled Congress Party governments to engage in centralised planned investment gave way from 1989 onwards to a regionalised multiparty system and coalition governments in which state parties play a decisive role. ...Economic and political decentralisation were working in tandem (2001a: 1543) ⁶.

Thus, the changes initiated in 1991 have been both economic and political and resulted in major transformation of the entire state system⁷.

The policies of economic liberalisation have also affected the workings of the State governments. Interestingly, although economic liberalisation has involved unpopular policy options especially for the rural electorate, State leaders have more or less adjusted to the new system⁸. As Weiner explains, 'the single most important force (1999: 289)' behind the economic reforms in States is perhaps the 'fiscal deficit', or rather, the emphasis put on reducing the fiscal deficit in the changed economic system. Since the central government took steps to increase 'hard budget constraints', the State governments were left with few options but to follow the reform process. One ex-Chief Minister in much of the 1990's confesses that unlike their predecessors in the 1970's and 80's, the political leaders in the post liberalisation era have been fettered by the fiscal constraints that prevent the latter from resorting to the populist measures⁹. On the

⁶ The argument of Rudolph and Rudolph that 'economic and political decentralisation' were in place throughout the 1990s, have to be understood in a certain context which is different from the one used in this thesis. They limit the argument between the Centre and States and by decentralisation they mean increased 'autonomy' of the latter.

⁷ The case that these political changes have amplified the effect of economic reforms is supported by many liberal analysts. Weiner (1999) observes that these changes have led to 'fiscal responsibility' in States and urges further 'change in the mind set of state politicians' as more investment, but not populism is required; Rudolph and Rudolph (2001a) equally observe increased autonomy of States while they face constant pressure from the 'regulatory' central government, credit rating agencies and its own fiscal deficit, which make sure the State cannot pursue fiscal profligacy as they used to; and Manor (1995) appreciates the ability of State politicians especially Chief Ministers to adjust to the new opportunities in liberalised economy and argue that the new multi-party system better functions in creating alternative choice for the electorate to oust inefficient or corrupt government. Echeverri-Gent (2001) argues that the rise of 'single state parties' still has a potential to be an impediment in reducing national fiscal deficit but cannot necessarily be an impediment to reforms in India's fiscal federalism as a whole. This, he argues, was verified with an example of above mentioned 'incentive funds' successfully introduced following the EFC recommendation with the coordination of Centre and States. Atul Kohli on the other hand, is more careful in appreciating negative consequences of such changes for 'the quality of India's democracy' (2006: 1361).

⁸ Not only reform oriented Chief Ministers such as Chandrababu Naidu of Telugu Desam Party (TDP) in Andhra Pradesh or S.M. Krishna of Congress party in Karnataka, prominent leftist leaders such as Jyoti Basu of Communist Party of India (Marxist) or his successor Buddhadev Bhattacharya in West Bengal have initiated the finance reforms in the State and actively invited foreign investors to improve State economy.

⁹ Interview with Digvijay Singh, March 1, 2005 in New Delhi.

one hand, the electorate has become more sensitive to the tangible economic gains or losses and increasingly tended to follow anti-incumbency mood. On the other hand, State leaders, shackled by fiscal deficits, have to fight this anti-incumbency wave without proliferating pork barrel. The pro-reform policy changes at the State level reflect the dilemmas they face in a democratic process of the liberalised India.

As the central government surrenders its responsibility for filling States' fiscal deficit, State governments gradually emerged as an independent player in both domestic and global market, to participate in the competition to attract investors. Increased mobility of capital, in effect, resulted in redistributing power among various economic and political institutions and providing State governments with 'more autonomy and incentive to pursue their own developmental strategies' (Echeverri-Gent 2001: 5; Jenkins 1995). This autonomy, however, was attained as a result of the relative decline in the central government's financial as well as political power rather than as a result of continuous demands from the State governments throughout 1980s.

2.2 The 73rd Constitutional Amendment: Major institutional changes

The political as well as economic transformation in the early 1990's set a condition to reduce the tension between the Centre and the States, which had been the impediment for decentralisation reform by the Rajiv Gandhi government in the late 1980's. It is also evident from the contents of the two different Constitutional Amendment Bills proposed by the Congress government in 1989 and 1991. The opposition to the 64th Constitutional Amendment Bill (henceforth, the 64th Bill)¹⁰ specifically criticised the provisions of the section 243H and 243I when it was debated in the Lok Sabha in 1989. The section 243H of the 64th Bill allowed the Comptroller and Auditor-General of India to submit the account report of PRI to the Governor of the State who was

¹⁰ I depend on the version cited in Appendix B in P. K. Gupta (1994).

considered as an agency of the central government¹¹. The provision, in a sense, gave an opportunity for the central government to intervene in the matters of PRI in each State through account audit. The section 243-I provided that 'the superintendence, direction and control of the preparation of electoral rolls for, and the conduct of, all elections to the Panchayats shall be vested to the Election Commission (243-I)'. These provisions, in a word of an MP from Tamil Nadu, 'had sown the seeds of suspicion that the centre is attempting to subvert the constitutional personality and authority of the States'.¹²

These challenged provisions in the 64th Bill with regard to the interventionist role of the Governor (243H) and the central Election Commission (243-I) were removed in the 72nd Amendment Bill. As for the audit, the 72nd Bill provided that the State Legislature can make provisions by law with respect to the maintenance of accounts by the panchayats and the auditing of such accounts (243J). In the latter case, superintendence and control were vested to the newly established State Election Commission (243K), which obviously contributed to reduce the opposition.

For State leaders, there are several other reasons to accept PRI reforms initiated by the Centre. First, by the time the Constitutional Amendment Bill was introduced for the second time in 1991, the idea of decentralisation had probably become an idea too popularly endorsed for the State leaders to openly reject. Although failed, Rajiv Gandhi successfully propagated the idea of local self-governance down to the grass roots level through his pre-election campaign in 1989. Once popularly approved, it would not have sounded a feasible option for any political party to oppose the idea openly. In fact, many

¹¹ The power of the Governor has been the sensitive issue in the Centre-State relations. Since the appointment of a Governor is made by the President but with a recommendation of the Cabinet (or Prime Minister?), the ruling party at the Centre often used this position to manipulate State politics. Especially the Presidential Rule is imposed based on the recommendation of the Governor, which made the position of the latter problematic. Besides the section 243H, 243L also bestowed the Governor a discretionary power to extend the application of the Bill to the tribal dominant scheduled areas in the north-eastern States. These provisions are removed in the 73rd Constitutional Amendment which now provides the complete discretion in this matter to the respective State Legislature. See for critical assessment of the 64th Constitutional Amendment Bill, *Frontline*, June 17, 1994.

¹² A question asked by P.G.Narayanan during the parliamentary debate, Constitution (Seventy-Third Amend.) Bill (Ins.of new part IX-A), page 687. (<http://parliamentofindia.nic.in/ls/lsdeb/ls10/ses5/1602129204.htm>)

MPs in opposition supported the idea of *panchayati raj* and devolution of powers to the local self-government. The criticism concentrated on the areas in which the Centre seemed to intrude into the powers of the State legislature, which by then were substantially reduced as compared with the 64th Bill. Second, as a relief for most Members of Parliament (MPs) who might have been anxious to be sidelined by empowering PRI, a new scheme was introduced in December 1993, one year after the passage of the 73rd constitutional amendment bill. 'Members of Parliament Local Area Development Scheme', popularly called MPLADS was introduced by the central Ministry of Rural Development. Under this scheme, each MP receives 10 million rupees¹³ discretionary fund every year for the development of local area. It was widely recognised to serve as a pork barrel to maintain local patronage relations of MPs and hence, was criticised severely by many activists and analysts that the scheme would undermine the authority and the spirit of local self-government (Oommen 1995: 5). Although it is hard to verify, considering that such schemes generally require certain consensus among legislators well in advance, it would not be too wild a speculation to think that MPs might have had this 'compensation' in mind when the 73rd constitutional amendment bill was passed. It would certainly have helped MPs to perceive less threat than they might have in 1989 when the 64th amendment bill was introduced.

In fact, the debate over the 72nd Amendment Bill was not as heated as the previous one proposed in 1989 and gained scant attention in the Lok Sabha. It was Ayodhya and demolition of the contested mosque¹⁴ in north India, but not the decentralisation reform,

¹³ Equivalent roughly to 250,000 US dollars. The amount was increased to 20 million rupees in 1999.

¹⁴ Replacement of the contested mosque in a town Ayodhya, Uttar Pradesh (UP) in north India had become a popular movement mainly since 1989, when BJP started organisational involvement together with Hindu fundamentalist groups. Hindu fundamentalists had claimed that the mosque was built on the birth place of Rama, one of the Hindu gods. For BJP, it was an opportunity to mobilise mass support and, in fact, it is broadly believed that this involvement in the movement helped BJP to gain power for the first time in UP State government at the elections held in June 1991. The formation of the State government in UP further pushed BJP to continue the movement till

that created a centre of attention in the middle of the parliamentary debate in early December 1992¹⁵. Mani Shankar Aiyar, one of the then MPs present at the parliamentary debate and the current Minister of Panchayati Raj, complained in the Lok Sabha on the 2nd of December 1992;

I can only express, on the one hand, my joy at what appears to be ...the culmination of an endeavour that goes back at least 50 years and at the same time my regret that when we are at the brink of the single most important systemic change in our Constitution and our method of governance, we should have such a thin attendance here in this House and an even thinner attendance in the Press Galleries. If we, as a Parliament and the watchdogs of Parliament were to devote as much attention to constructive endeavours as is devoted to destructive endeavours [demolition of the mosque], perhaps we will sooner be able to realise our goal of a great and prosperous India.¹⁶

In any case, the 72nd Constitutional Amendment Bill was passed the Lok Sabha in December 1992 and with the consent of maximum States, it finally became an Act in April 1993 when it was renumbered and enacted as the 73rd Amendment Act. Major mandatory as well as discretionary changes provided by the 73rd Constitutional Amendment are summarised in Table 2.1.¹⁷ The detailed list of 29 functions of panchayats is provided in the Eleventh Schedule of the Constitution as attached as Appendix 5.

It is clear that most notable compulsory provisions are in the area of democratic

they actually demolish the mosque in Ayodhya on the 6th of December 1992. The site of the half demolished mosque has been put under strict guard by the army since then.

¹⁵ Varshney argues that this Ayodhya issue helped distract attention of legislators from significant economic policy changes, since oppositions needed to stop BJP at any cost and they 'disliked Hindu nationalism more than the reforms' (1999: 247). This, he argues, is the reason of the lack of practical criticism in Lok Sabha debates and the collective supports at the vote for budget proposals in mid 1991 and early 1992. While it is difficult to verify whether similar psychology worked in favour of passage of the 72nd Constitutional Amendment Bill, it cannot be denied that this notorious incident and the threat of communalism which independent India had never experienced before had in some ways gained more attention than the PRI reforms.

¹⁶ *Lok Sabha Debate*, 02.12.92 *t16, Constitution (Seventy-Sec. Amend.) Bill (Ins. of new part IX) Constitution (Seventy Third Amend.) Bill (Ins. of new part IX-A), p. 661

¹⁷ Following the method applied by Chaudhuri (2003), the distinction between mandatory and discretionary provisions is made with the specific words used in each provision. The mandatory provisions include the word 'shall' in suggesting actions to be taken by the individual States while the discretionary provisions contain the word 'may' instead.

Table 2.1: Summary of the 73rd Constitutional Amendment

	Mandatory provisions	Discretionary provisions
Structure	Three tier rural local bodies (panchayats) at the village, intermediate and district levels in every State (Article 243B)	Panchayats at the intermediate level may not be constituted in States with population below two million (Article 243B (2))
Size of VP	(No specific mention on the size.)	Panchayat at the village level should be constituted in each village which is specified by the Governor by public notification to be a village for the purposes of this Part of the Constitution and includes a group of villages so specified. (Article 243(g))
Gram Sabha		Constitution of Gram Sabha with the electorate at the village level and its powers and functions will be provided by the State legislation (Article 243A)
Composition	Compulsory elections to panchayats every five years with the elections being held before the end of the term of the incumbent panchayat. (Article 243E); direct elections to all seats in the panchayats at all levels (Article 243C); indirect elections to the chairperson of a panchayat at the intermediate level and the district level (Article 243C); In the event that a panchayat is dissolved prematurely, elections must be held within six months (Article 243E)	Direct or indirect elections to the chairperson of a panchayat at the village level. (Article 243C (5)(a))
Reservation	Reservation of seats in all panchayats at all levels for Scheduled Castes (SC, Dalits) and Scheduled Tribes (ST, Adivasis) in proportion to their share of the panchayat population (Article 243D); reservation of one-third of all seats in all panchayats at all levels for women, including the seats reserved for Dalits and Adivasis (Article 243D); reservation of the position of panchayat chairperson at all levels for SC and ST in proportion to their share in the state population (Article 243D); reservation of one-third of the positions of panchayat chairperson at all three levels for women (Article 243D)	Reservation of seats for other backward class of citizens 243D(6)
Election Commission	Constitution of an independent election commission at the State level to supervise and manage elections to local bodies, much as the Election Commission of India manages state assembly and parliamentary elections (Article 243K)	The conditions of service and tenure of office of the State Election Commissioner shall be decided by the State legislature and by the rule that the Governor determines depending on the State legislation. (Article 243K (2))
Duration of panchayats	Five years from the date appointed for the first meeting	
Functions		The State legislature may endow powers and authority to panchayats so as to enable them to function as institutions of self-government. In particular, the provision calls for devolution of powers and responsibilities for the preparation of plans and implementation of schemes for development and social justice including those items which are listed in a new schedule, Schedule XI, of the constitution (Article 243G)
Finances	Constitution of State Finance Commission within one year from the commencement of the Amendment Act, 1992 and reconstitution of the same after five years to review the financial status of panchayats. (Article 243-I)	State can pass legislation with regard to increasing the financial resources available to rural local bodies by increasing the latter's statutory taxation powers and by providing for assigned revenue and grants-in-aid from the State government. (Article 243H)
Audit		State can make provisions by law with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts. (Article 243J)

representation of panchayats. Especially mandatory reservation of seats for the marginalised sections namely Scheduled Castes (SCs, or Dalits), Scheduled Tribes (STs or Adivasis) and women was considered to be a landmark provision for the PRI which had long been dominated by local elites. It has widely been expected that these changes would deepen democracy at the grass roots level. In addition to these changes in democratic representation, two institutions were provided to be set up at the State level. One is the State Election Commission (Article 243K) to supervise and control the preparation and the conduct of all elections to the panchayats and the other is the State Finance Commission (Article 243I) to ensure the financial devolution from the State government to the PRI.

All the mandatory provisions have made visible changes in PRI; regular elections once in five years (sometimes with delays) and seat reservation for Women, SC and ST in PRI representatives are among the most noticeable. As for the constitution of panchayats, each village or a group of villages consists a village panchayat with the tenure of five years. The panchayats are divided into around 10 to 20 wards and every panchayat consists of elected members from each ward, an elected president and vice-president. Normally only the vice president is elected from among the elected members of the panchayats and the rest is elected directly. The seats to be filled by direct election are reserved for SCs and STs in proportion to their population in the panchayat, on a rotational basis.¹⁸ The seats of the president are reserved for SCs and STs in proportion to their population in the block. One-third of the total number of seats of presidents within a block is also reserved for women. This reservation for women is to be arranged within a reservation for SC and ST seats, indicating that one-third of these reserved seats will be reserved for women who belong to these categories.

¹⁸ Some States including Madhya Pradesh stipulate in their respective Panchayat Acts for additional reservation for other backward classes.

On the other hand, discretionary provisions with regard to actual functions, planning, empowerment of Gram Sabha, financial devolution are those have had least progress with varied level of success among States. In most parts of the country, probably with an exception of Kerala, where 'people's planning' has reportedly been successful, even the district administration, let alone PRI, rarely participates in the planning process (Meenakshisundaram 1994: 110-11). Development plans has been prepared at the State level with some coordination with State Planning Commission and central Planning Commission and this pre-73rd amendment arrangement has been very persistent. In many cases, even in the States where District Planning Committee was instituted, its actual function has reportedly been nominal.

Financial devolution has also brought diversified but mostly disappointing outcome. This is due partly to the structural problem to enhance revenue of PRI. Financial resources are devolved to PRI mainly through three sources; (i) from consolidated fund of the State following the recommendations of the SFCs; (ii) from central government via CSS; and (iii) grants in-aid as per the central Finance Commission award (GOI 2001b). Out of three sources, the only statutory source from outside PRI 'in the sense of legally stipulated entitlements' is the first, from the State governments (Rajaraman 2003: 15). Subsequent to the 73rd Constitutional Amendment, Article 280(3) of the Constitution which provides mandatory terms of reference of central Finance Commission, was amended to include two sub-clauses. The central Finance Commission is now provided to additionally recommend 'the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State (Article 280 (3) (bb))'¹⁹. Significantly, the role of the central government in augmenting the revenue of PRI is very much limited and indirect, as *it*

¹⁹ Similar provision was made for municipalities in Article 280 (3) (c).

has to follow the recommendation of the SFC in each State. The Tenth Finance Commission made this division of labour very clear;

The responsibility of sharing taxes with Panchayats and assigning grants to them has not been transferred from the states to center [*sic*]. The responsibility for providing Panchayats with an independent source of revenue as also grants for specified purposes is very much that of the state governments. The State Finance Commissions are there to ensure proper allocation of resources as between the state and Panchayats. If in the process of supplementation of the resources of Panchayats a need arises for the augmentation of the state consolidated fund it has to be considered by the [central] finance commission (GOI 1994: 47).

This limited role of central government in increasing resources of PRI may result in financial difficulties of the latter. As discussed in Chapter 3, with such swelling fiscal deficit, the State government rarely has strong incentives to devolve funds to PRI. As the Ministry of Urban Development reportedly admitted, ‘a severe financial crunch’ of States may impede the development of self-government by limiting its access to sufficient resources (GOI 1994: 46). Moreover, while institution of SFC itself is mandatory, it is not compulsory for State governments to implement its recommendation. Recommendation has to be followed by administrative notification but even such notification does not carry guarantee to be implemented as it prescribes (Rajaraman 2000). It is not, therefore, totally irrelevant assessment that the 73rd Constitutional Amendment provided, in effect, democratic empowerment of PRI without prescribing substantial financial powers to enable them to function as a local self-government. The Amendment certainly provided for financial empowerment of PRI, but it was, in a sense, designed to allow increased disparities in terms of their financial status among States.

2.3 Reforms in finance of PRI: State and central Finance Commission Recommendations

It does not, however, reduce the significance of the recommendation of SFCs, most

of which made notable changes in the relationship between respective State government and PRI. Although the sheer volume and the complex content of the reports that requires understanding of historical development of each State's tax arrangement have impeded detailed comparative analysis, several scholars and institutions tackle the voluminous reports to study the trend of financial devolution to the PRI (Oommen 1998; Rajaraman 2000)²⁰. It is not within the scope of this thesis to examine recommendations of each SFC in detail²¹, but a certain framework should be understood. Focusing on a principle of 'expanding the fiscal domain of PRI', Rajaraman (2000)²² finds that very few SFC recommended the expansion either in finding new sources previously untapped or in transferring powers of levy of State-level taxes²³. The reason for the lack of attention to expansion of the PRI's fiscal domain is explained as 'the perceived reluctance' of local bodies to levy taxes, which was reported by all the eight SFC reports under her study (*Ibid*: 201). Most reports recognised this 'reluctance' as 'inability' of village panchayat to levy taxes. Hence, the recommendation of SFCs focused on the revenue sharing and grant from the State's consolidated fund to be devolved to the panchayats.

Without expanding the fiscal domain of PRI, naturally, the major part of transfer from the State government comes from tax sharing of the Consolidated Fund of the State, in which State government was compelled to give up part of its own resources for PRI. It is mostly in this category that the differences among SFCs in the level of

²⁰ Apart from the analysis by successive central Finance Commissions, GOI (2001b) gives summary of the first SFC report in each State, but does not provide comparative analysis. A State Finance Commissions Cell at the National Institute of Rural Development in Hyderabad reportedly tracks the 'Action Taken Reports' of the States where available (Rajaraman 2000: 199n).

²¹ SFC Reports in the two States in the case study will be examined in the next chapter.

²² Rajaraman (2000) studies SFC reports of eight States; Kerala, Tamil Nadu, Madhya Pradesh, Rajasthan, Uttar Pradesh, Punjab, Orissa, and West Bengal.

²³ Some exceptions are Madhya Pradesh and West Bengal SFCs which recommended fees on sale of agricultural produce to be transferred to village panchayats (Rajaraman 2000: 200).

devolution appear (Oommen 1998)²⁴. The amount of recommended share of State tax is varied from '2.18 per cent of the total net tax revenue' of the State (Rajasthan) to '36 per cent of the total non-loan gross own revenue receipts' of the State (Karnataka). This will be allocated to each PRI depending on the criteria set by each SFC (*Ibid*: 13). These differences in recommended percentage of tax sharing inevitably define the diversified level of performance of PRI in each State.

Together with this tax sharing from the States, recent two central Finance Commissions have gone a step further than the Tenth Finance Commission by actively enhancing the States' consolidated funds to promote financial devolution to the PRI. The Eleventh Finance Commission recommended providing Rs. 16 billion to the PRI and Rs. 4 billion to the Urban Local Bodies (ULB). Out of this Rs. 16 billion grant, the EFC suggested to deduct Rs. 3 billion for the maintenance of accounts and audit at the lower two tier of PRI and creation of database relating to the finances of PRI. This leaves Rs. 13 billion for the maintenance of civic services including provision of primary education, drinking water, street lighting, which the EFC found as a 'critical area' needed to be re-emphasised²⁵. The Twelfth Finance Commission (TFC) further increased the grants for PRI to Rs. 200 billion and focused on the operation and maintenance costs of the services relating to water supply and sanitation²⁶.

It is significant to note, in the first place, that the central Finance Commissions have focused on 'the operation and maintenance cost' of basic services of PRI. Assigned to recommend on PRI's finances as well as functions for the first time in its

²⁴ Oommen (1998) studies SFC reports of five States; Karnataka, Kerala, Punjab, Rajasthan, West Bengal.

²⁵ According to the estimate by National Institute of Rural Development (NIRD), the financial requirements for the operation and maintenance of the core services (primary education, primary health, safe drinking water, street lighting, sanitation and burial grounds) of PRI come to Rs. 1421 billion during 2000-2005 or Rs. 284 billion annually.

²⁶ TFC, on the other hand, recommended PRI to 'take over the assets relating to water supply and sanitation' and use the TFC grants for repairs and operation and maintenance costs on the condition that PRI recovers at least 50 percent of the recurring costs in the form of user charges' (GOI 2004b: 160). As for the amount of grants to PRI and ULB, it is clear from the estimate by NIRD cited above that even much expanded TFC grant is far from sufficient (cited in Oommen 2000: 8).

TOR, the EFC recognised its aim to be ‘to help achieve the objective underlying the 73rd and 74th amendments of the Constitution by enabling the local bodies to function *truly* as institutions of self-government’ (GOI 2000: 17; *Italic* added). The report, in fact, repeatedly emphasised this point²⁷, and suggested the measures to ensure the functions. It recommended, for example, administrative reorganisation so that PRI and ULB ‘have adequate administrative infrastructure’ and ‘be able to raise financial resources on their own (*Ibid*: 84).’ These own resources of PRI and ULB, together with the devolution from the State government are considered to ‘enable them to perform their basic civic, regulatory and developmental functions with efficiency and economy (*Ibid*: 84).’ It is in this context that EFC recognised ‘maintenance of civic services’ and ‘maintenance of accounts and their audit’ as the critical areas to be improved, which ‘normally get overlooked in the normal flow of funds from the States (*Ibid*: 76).’ The EFC was critical about the traditionally limited role of PRI which had been restricted to ‘agency function’ of various central and State schemes with ‘no role in the planning and formulation of the schemes (*Ibid*: 83).’ Although the amount of grant suggested by EFC was far from sufficient, the principle exhibited in the EFC report was a significant departure from the traditional functions of PRI.

2.4 Increased CSS and PRI as ‘Service Providers’

The 73rd Constitutional Amendment was, in the first place, an act to substantiate the original Article 40 of the Constitution which stated: ‘The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government’. Thus, in the newly added Part IX of the Constitution, Article 243 (d) defines ‘Panchayat’ as ‘an institution

²⁷ EFC report actually used the similar expression (‘to make local bodies function as institutions of self-government’) seven times within 15 page length of chapter for ‘Local Bodies’ (GOI 2000: Chapter VIII), while TFC does not mention the word ‘self-government’ at all.

of self-government...for the rural areas' and Article 243G further provides as follows:

243G. Powers, authority and responsibilities of Panchayats.—Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to—

- (a) the preparation of plans for economic development and social justice;
- (b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

In order to substantiate the position of panchayats as institutions of local self-government, the amended Constitution provides regular elections, clear area of jurisdiction and the power to tax. These institutional provisions decisively differentiate panchayats from any 'civil society' groups.

We... have a constitutionally mandated position for local self-government...with clear financial powers. These include the power to tax, which is inherently a power of the state. That it has been given to panchayats means only that *they are government* at one level, and an inherent part of the complex entity called the state (Vyasulu2003: 55, *Italics added*).

Vyasulu goes on to point out that, despite this constitutionally mandated position of PRI as a part of the state, there is a persistent view to see PRI as part of 'the people's sector' or some sort of NGO (*Ibid*: Chapter 3). On the other hand, the aspect of PRI as a local self-government is often neglected except for in the reports of the Central Finance Commission cited above. Why?

In answering this question lie two major shifts in policy orientation which took place in the area of rural development schemes of the central government since the late 1980s. First of these changes were the multiple increase in development funds directed to PRI. In the 1990s, the revenue of PRI tripled and more than 95% of that revenue was the transfer from both central and State governments (Figure 0.2, Introduction). Out of this financial transfer, the majority is in the form of CSS such as IAY and SGRY. Development of rural local self-government and multiple increases of CSS funds are, in

fact, part of the policy strategy designed by Rajiv Gandhi government in the late 1980's. Although it failed, what Rajiv Gandhi government intended to do by insisting on the reforms of local self-government, was to create the direct channel of service provision from the central government right to more than half a million villages. A famous anecdote goes that Rajiv Gandhi complained to his party colleagues that five out of every six rupees allocated by the Centre for the poor were 'devoured' before it reached the final destination.

It was already attempted since the early 1980s by Indira Gandhi government which initiated several CSS such as National Rural Employment Programme (NREP, 1980-), Rural Landless Employment Guarantee Programme (RLEGP, 1983-) and Integrated Rural Development Programme (IRDP, 1978-). In order to ensure the implementation of these schemes, the central government had established District Rural Development Agency (DRDA) in the beginning of 1980s at the district headquarters all over India. DRDA has since then become the hub with regard to the management of all CSS and IAS District Collector, an employee of the central government, took full charge of DRDA by assuming the head of the institution.

The attempts of the Rajiv Gandhi government were, in a sense, a step forward to extend the direct pipeline from the central government through DRDA eventually to the villages.²⁸ His intension was to *ensure the service provision route through DRDA to the villages*. This government's intension is also confirmed from the increased actual expenditure on the CSS. In April 1989, the government introduced Jawahar Rozgar Yojna (JRY) to integrate similar CSS aimed at increasing rural employment²⁹. When

²⁸ As mentioned earlier, the first action Rajiv Gandhi took following the recommendation of the two committees, was to hold meetings with the District Collectors, who, as the head of the DRDA, were responsible for implementation of the CSSs. In one of the workshops with District Collectors, Rajiv Gandhi emphasised that 'the Collector should be actively involved in development administration, render strength to the Panchayati Raj institutions and in turn find strength from them' (cited in Mukarji and Mathew 1992: 281).

²⁹ JRY was introduced in the last year of the period for the Seventh Five Year Plan, which did not originally include it. JRY merged and replaced two existing programmes namely National Rural Employment Programme (NREP) and

the government proposed the scheme, it was made clear that ‘contractors and other intermediaries are not permitted in the execution of the works’ and the government specifically claimed that the funds for JRY would be directly devolved from the central government to the village panchayats (GOI 1991?: para. 2.7.5, 2.7.7). The government projected that on an average, a village panchayat with a population of 3,000-4,000 would receive between Rs. 80,000 and Rs. 100,000 a year to implement the JRY (Lal 1994: 35). The resources allotted to JRY for 1989-90, was Rs.26 billion to generate 931 million man-days of employment, which became the largest rural development scheme in terms of financial allocation (GOI 1991?: para. 2.7.2).³⁰

Although these popular appeals did not lead to the Congress party’s electoral success in the general election in 1989 as planned, it was the significant beginning of a new era for rural development, that is, ‘centralised rural development through PRI’. Introduction of JRY obviously contributed to the sharp increase in the central plan share from 52.9% during the Sixth Five Year Plan period (1980-1985) to 58.3% in the Seventh Five Year Plan period (1985-1990) as opposed to the State plan share that dropped from 45.3% to 40.0% (Table 2.2). This tendency has more or less continued till the current Tenth Five Year Plan (2002-2007). By combining central schemes of rural development and PRI, the central government has established an almost exclusive access to channel its resources. In this process, the role of the State governments was minimised to that of passing the already prescribed scheme funds to the PRI. The tendency to name CSS after the Congress leadership starting from ‘Indira Awaz Yojna’ (a housing scheme for socially and economically backward population) and ‘Jawahar’

the Rural Landless Employment Guarantee Programme (RLEGP) both of which were initiated during the Congress government under Indira Gandhi (1980-84).

³⁰ Such increased expenditure on the employment generation scheme, along with the meetings with panchayat representatives all over the country, was seen by many as a ‘catchy’ propaganda for nearing general election in 1989 by the Congress party which was then rapidly losing popularity.

Table 2.2: Percentage Share of Centre, States and Union Territories in Plan Expenditure

	Centre Plan	State Plan	Union Territories	Total Plan Expenditure
First Plan (1951-56 Actuals)	36.0%	63.5%	0.5%	100.0%
Second Plan (1956-61 Actuals)	54.2%	45.3%	0.5%	100.0%
Third Plan (1961-66 Actuals)	49.1%	49.3%	1.6%	100.0%
Annual Plan (1966-69)	51.3%	47.1%	1.6%	100.0%
Fourth Plan (1969-74 Actuals)	49.6%	48.6%	1.8%	100.0%
Fifth Plan (1974-79 Actuals)	47.6%	50.8%	1.7%	100.0%
Annual Plan (1979-80)	46.8%	51.7%	1.6%	100.0%
Sixth Plan (1980-85 Actuals)	52.9%	45.3%	1.8%	100.0%
Seventh Plan (1985-90)	58.3%	40.0%	1.7%	100.0%
Annual Plan (1990-92)	58.6%	39.7%	1.8%	100.0%
Eighth Plan (1992-97)	62.4%	35.8%	1.8%	100.0%
Ninth Plan (1997-2002 Actual)	57.5%	42.5%	0.0%	100.0%
Tenth Plan (2002-2007 Projection)	58.5%	41.5%	0.0%	100.0%

Source: Table 1.2, Planning Commission website (<http://planningcommission.nic.in/data/dataf.htm>, downloaded 11 June, 2006), 'Indian Planning Experience - A Statistical Profile', accessed December 15, 2005. Figures for Tenth Five Year Plan 2002-07 is from GOI (2001: 87)

Rozgar Yojna³¹, can be considered as an attempt to clarify and impress the beneficiaries that the sources of the particular scheme are the Congress government at the Centre and not that of the State governments. Thus, the decentralisation policy has increasingly become a practice in which the resource allocation process for rural development schemes is centralised by strengthening its direct ties with PRI while the allocated resources to the State governments are reduced.

The second major change in policy orientation is the increasing trend to regard PRI merely as one of the multiple implementers of the CSS. Ever since the 1950s when Community Development programme was synchronised with the PRI, administrative organisations for promoting PRI and rural development had closely associated at the level of the central Ministry³². It is partly for this reason that PRI, where and when it

³¹ While 'Indira' Awaz Yojna obviously evokes Indira Gandhi, Jawahar Rozgar Yojna was named after her father, Jawaharlal Nehru.

³² The current United Progressive Alliance government created the independent Ministry of Panchayati Raj, separated from the Ministry of Rural Development. While emphasising its own mission to empower PRI, officials in the Ministry of Panchayati Raj put equal emphasis on coordinating various ministries including Ministry of Rural

functions, has been regarded as an implementing agency of the central rural development schemes. Almost coinciding with the transformation witnessed in the 1990s, however, this relation has been changed. Since the late 1980s, there has been an increasing emphasis laid in the Five Year Plans on 'people's participation' and the role of 'voluntary agencies' in implementing rural development schemes. More actors, besides PRI, have come to be involved in the implementation of the CSS. The implementer of rural development schemes has become pluralised while the position of PRI has become somewhat blurred.

The Seventh Five Year Plan (1985-1990) highlighted the role of voluntary agencies as following:

There is a good deal of voluntary effort in India, especially in the field of social welfare. The tendency so far has been to equate the work of voluntary agencies with only welfare activities and charity work. Involvement of other agencies in the *non-government sector*, such as trade unions, cooperatives and Panchayati Raj bodies, has tended to blur the identity of those which can be strictly defined as voluntary organisations. ...These agencies have been known to play an important role by providing a basis for innovation with new models and approaches, ensuring feedback and securing the involvement of families living below the poverty line. Therefore, during the Seventh Plan, serious efforts will be made to involve voluntary agencies in various development programmes, particularly in the planning and implementation of programmes of rural development (GOI 1984: para 2.114, *Italics added*).

The significant point here is that PRI is clearly regarded as part of 'non-government sector'. It was stressed that 'voluntary agencies' had a greater role to play than the 'other agencies in the non-government sector' in which PRI was included. This negative judgement was attributed to the fact that PRI has 'for a variety of reasons not been actively and effectively involved in the implementation of rural development programmes except in a few States (*Ibid*: para 2.80).' While emphasis was laid on the active involvement of voluntary agencies, PRI was regarded as inert and ineffectual agencies of rural development programmes.

After the 73rd Constitutional Amendment, the expectation on PRI has certainly changed and increased, but the stress on 'voluntary agencies' has also been consistent. When the Eighth Five Year Plan (1992-97) was submitted the policy environment was strongly affected by the economic and political transformation explained earlier in this chapter. The process of economic reforms had already started and the 72nd (later 73rd) Constitutional Amendment Bill was being discussed in the Lok Sabha. In this changed environment, 're-examination and reorientation of the role of the Government as well as the process of planning' was advocated, in which 'people's participatory institutions' was suggested to be strengthened (GOI 1991: para 1.1.5). Although there was a brief appreciation on the possibility of 'democratic decentralisation ...through the Panchayati Raj Institutions' (*Ibid*: para 2.12.3), a 'greater emphasis' was again laid 'on the role of voluntary organisations' (*Ibid*: para 2.16.6):

A lot in the area of education (especially literacy), health, family planning, land improvement, efficient land use, minor irrigation, watershed management, recovery of wastelands, afforestation, ...etc., can be achieved *by creating people's institutions accountable to the community*. Therefore the focus of attention will be on developing *multiple institutional options* for improving the delivery systems by using the vast potential of the voluntary sector' (*Ibid*: para 1.4.44, *Italics added*).

Thus, the Planning Commission supported the idea of multiplying 'delivery agencies' of the government services. By multiplying such agencies, it was argued, that 'the latent energies of the people' would emerge 'through people's involvement in the process of nation building (*Ibid*: para 1.3.11).' It was the 'people's involvement' that was repeatedly stressed while PRI had only a passing mention.

It was in this context that several central Departments and Ministries not only started setting up their own 'committees' at the village level or above but also using NGOs as an implementer of their CSS. A working group for the Tenth Five Year Plan submitted its report on PRI in 2001 took up this issue on the relations with various

committees for CSS and PRI. The report points out that central Departments/Ministries other than Ministry of Rural Development have established 'parallel delivery systems', for the implementation of CSS of respective Departments/Ministry such as; 'District Health and Family Welfare Society' set up by Department of Health and Family Welfare; 'Village Education Committees' by Department of Education; and 'Joint Forest Management Committee' by Ministry of Environment and Forests. It concludes that each Department/Ministry should 'indicate a *modus operandi* for involvement of PRI in executing programmes' especially in the areas of activities that fall within the functional domain of the PRI (GOI 2001a: 42). Making parallel institutions is a tendency also true to the 'externally aided projects'. For instance, Joint Forest Management is a methodological concept widely endorsed in the international development arena. Many major development institutions including World Bank, DfID and Japan Bank for International Cooperation (JBIC) have adopted this methodology to ensure the participation of the community to make both forest resources and the project sustainable. However, since most of them constitute independent 'committees' solely for the purpose of each project, it could be confusing for villagers who participate in them and they may end up asking 'How many committees do I belong to?'³³. Coordination with these independent committees and PRI is rarely seen in implementation of such projects³⁴.

The transformation in the 1990s has appeared to have affected this pluralisation of

³³ An article titled the same by Vasavada, Mishra and Bates (1999) reveals the confusion at the village level due to numerous committees created for implementing different development projects including Joint Forest Management.

³⁴ Among these international development institutions, DfID has relatively different approach and recent projects seem to try to create network among NGOs and village panchayats as implementers (www.dfidindia.org/states/mp-state.htm, accessed 09/06/2006). One of the institutions, JBIC, also funds JFM schemes in several States in India. Answering my question about how she thinks about the possibility of coordination with PRI, an officer in charge told 'we don't want the project to be *politicised*. For the sake of sustainability of the projects, we believe the projects should be kept away from local politics (Interview on 9th November 2005)'. In support of this view, Manish Tiwary (2005) finds it not so effective to 'make forest committees subservient to the panchayats and the dominant village polity' for effective forest management as the panchayats tend to be insensitive 'to the forest-based needs of the villagers'. This seems to be still a contentious issue requires further studies.

rural development actors. Resources through CSS became more visible and available in the countryside, but it does not necessarily flow through the democratic local self-government, but increasingly from the central administration to the 'people's sector'. Despite the fact that CSS has been one of the contentious issues between the Centre and the States over its administrative control, the share of central plans vis-à-vis State plans have increased especially since late 1980s as pointed out earlier (Table 2.2). Centre's share of development resources has increased while its agencies in the countryside have slowly but increasingly took the shape of a variety of 'people's institutions'.

As the involvement of NGOs increases, however, initial glorification on 'people's sector' has been replaced by more cautious approach due to problematic experiences. The same report of the working group in 2001 points out certain limitations of NGOs such as; the organisations tend to be 'single leader oriented'; its area of operation is geographically limited; and they 'are not accountable to the local people in any legal sense of the term (GOI 2001a: 51).' Many have 'no internal democracy, and they largely depend on the government or international aid agencies for funds.'³⁵ The Working Group concludes that NGOs should work 'under the direction and supervision of the PRI' especially when their activities come under the jurisdiction of the panchayats (*Ibid.*). Although in reality, this division of labour is rarely witnessed, it sheds a light to the problems caused by biased view on non-governmental sector. PRI's position as an elected representative body of local self-government is beginning to be appreciated.

³⁵ I have encountered during my fieldwork in the two States many criticisms on NGOs from district officials and even from the members of NGOs themselves. It is often pointed out that the rapid change in the government policy to utilise more non-government actors in implementation of rural development schemes does not coincide with the healthy growth of NGOs at the similar pace. As a result, many former 'contractors' of government schemes, many of which tend to be local political leaders, often form 'NGOs' on their own and gain 'contracts' from the local administration as they have long been doing. While there are voluntary organisations which are based locally and have been active with their own funds, most organisations depend on the government schemes for funds. Hence, their area of activities is more or less the same as those in the government schemes.

2.5 Summary

This chapter dealt with the political as well as economic background of the 73rd Constitutional Amendment and the actual institutional changes occurred after the Amendment in 1992. Unlike decentralisation under the Rajiv Gandhi government, decentralisation in the 1990s emerged in an already 'decentred' environment. With the advent of economic liberalisation, Indian state and society have become exposed more to market forces at every level. The declined fiscal interdependency between the central and State governments, increased emphasis on fiscal deficit reduction, and increased power and presence of regional parties in the national politics, all have dispersed the long accumulated tension between the Centre and States. This change in the dynamics of Indian federation has set the condition to promote decentralisation to PRI, which had in the history of Indian state been repeatedly thwarted by various political and economic forces.

The 73rd Constitutional Amendment was finally materialised in such changed environment in 1992. While it provided for the uniform structure of three-tier panchayats in every State, its achievement tends to be limited to its mandatory provisions such as democratic constitution of panchayats and reservation of seats for weaker sections including women. On the other hand, the discretionary provisions with regard to finances and functions of panchayats inevitably resulted in varied provisions in each State panchayat Act and performances in those areas in each State. This will be the focus of the next Chapter.

On the other hand, ironically, just as when PRI's role as a local self-government was substantially defined in the Constitution, PRI has become increasingly regarded merely as one of the implementers of government schemes. This is due to the changed discourse of rural development since the late 1980s, which increasingly stressed the role

of non-government development agencies. As a result, the mandate of panchayats as democratically elected government institution tends to be overlooked especially in policy arena. One of the fundamental powers of the government, taxation, has thus, never been effectively recognised as a crucial function of PRI in many States.

However, Tamil Nadu was one of the exceptions in terms of its administrative capacity to enforce panchayat taxation. Next Chapter will focus on the historical development of the regime of local self-government in the State of Madhya Pradesh and Tamil Nadu in order to enquire the roots of different institutional settings in the two States.

3. Development of local self-government in Tamil Nadu and Madhya Pradesh

The previous two chapters have revealed the different imperatives behind decentralisation strategies of each regime starting from the British administration upto the Congress government in the early 1990's. This chapter shifts focus from the national level development to the State level development. More specifically, the differences in historical development of administration and local self-government in Tamil Nadu and Madhya Pradesh will be the focus of this chapter. As discussed in the previous paper, the administrative capacity of the two States in the sphere of local self-government is contrasting (Sasaki 2005). While the State government of Tamil Nadu has actively been involved with the panchayat administration, the Madhya Pradesh government has been distancing itself from the panchayat and its tax administration. How has different regime of local self-government been developed over a period of time in the two States? In order to explore the historical background of these different systems, this chapter is divided into three sections chronologically; first, the British era since late nineteenth century up to early twentieth century; second, the first decentralisation wave in post-independence period in the 1950s and the 1960s; and third, post 73rd Constitutional Amendment periods since 1992. Special attention is paid to the relationship between the local administration and local self-government, especially the village panchayat. To investigate this relationship required starting the first section with discussing about the land revenue system under the British rule. As a prelude to the next chapter, each section also examines the tax collection status of local self-government in each State in different time period.

3.1 Administration and local bodies under the British Rule

3.1.1 Tamil Nadu

Madras, the capital of Tamil Nadu, was one of the earliest settlements of the East India Company, established in the 17th century. The Madras Presidency, which includes most part of erstwhile Tamil Nadu, has been exposed to the British colonial rule for a much longer period than many other parts of India have. It is thus, often claimed to have established a well-disciplined modern public administration system. The uniqueness of the district administration of Madras Presidency can be found in its size and discretionary power of the District Collector. Since the area to be covered by a district tended to be larger and there was no divisional commissioners to administer a block of districts as in other provinces or presidencies, the District Collector in Madras had much stronger discretionary powers than its counterparts elsewhere (Misra 1970: 499). However what made the functioning of the district administration in Madras most distinct from other parts of India is in its land revenue system called *ryotwari*. *Ryotwari* system was introduced during the governorship of Thomas Munro (1820-27) aiming 'to maximize both social justice and revenue yield (Baker 1975: 109).' In theory of *ryotwari* system, every field was assessed taking into account the type of soil, rain, irrigation facilities, and many other factors and each *ryot*, or cultivator paid revenue only on those fields which he actually cultivated. By dealing directly with cultivators and removing chances of exploitation by landlords as was the case in the *zamindari* system in the North, Thomas Munro claimed that *ryotwari* system created a direct link between the government and cultivators and brought about a society of 'equal peasants'.¹

In order to assess each plot of land, the *ryotwari* system required a detailed land

¹ Munro is claimed to have applied the 'political principle of destroying any and all intermediary authority between the company and the cultivator as the best assurance of the securing of control by the company over its new dominions' (Stein 1989: 59-60, cited in Ludden 1992: 256).

survey and frequent visits to the villages by local officials (Misra 1983: 38; Kulke and Rothermund 1998: 245-46). A Bengal ICS² officer who visited Madras Presidency reported in 1910 that the *ryotwari* system requires the administration to deal directly with the villages where the primary records are kept. From an eye accustomed to the *zamindari* system in Bengal, the arrangement under *ryotwari* system was something new and unknown:

Under this system, in which the State deals directly with the raiyat [*sic.*, cultivator], the revenue administration naturally and necessarily starts from the revenue village. The registered occupant of each field deals directly with Government;... In these circumstances it is obvious that the records must be kept locally. It is the duty of the village accountant to keep the records of each village as settled from time to time by the Settlement Department... This maintenance of records on the spot as well as the collection of the revenue and cess involves the upkeep of an establishment for each village.³

Considering the fact that two-thirds of Madras Presidency came under the *ryotwari* system, this observation may be applicable to most villages in Madras Presidency, where the custom of keeping records on land and revenue collection, and meeting officials directly in the village was maintained.

On the other hand, in order to maintain this *ryotwari* system, the district administration necessarily had to depend on the traditional village officers. The village officers of *ryotwari* villages in Madras Presidency, village headmen and *karnams* (accountants), are generally from the main land-owning families. While village headman was in charge of the collection of government revenue, the responsibility of *karnam* was to maintain the revenue records and together they occupied the most influential positions in the village.⁴ This was the customary system more or less seen in

² ICS, Indian Civil Services, is a colonial predecessor of IAS, Indian Administrative Services. The position of IAS officers is almost the same as that of ICS officers. See footnote 1, Chapter 1.

³ *Report on the System of District Administration in the Madras Presidency as Compared with Bengal (with Special Reference to Proposals for Decentralisation)*, by C.E.A. W. Oldham, I.C.S., on special duty, Calcutta: Bengal Secretariat Press, 1910.

⁴ Baker and Ludden point out that these village officers together can control and possibly manipulate the land records or even 'impose their own tax on the surplus production of the village' if they so wished (Baker 1984: 446; Ludden 2005: 109).

this area even before the British rule. The British administration, just as they depended on the revenue system of the earlier rulers, depended on these village officials for record keeping, assessment of yields and various administrative requirements (Baker 1975).⁵ When the District Collector of Tinnevely district in Madras ordered a survey of all cultivated land in 1821 in an attempt to centralise information, village officials resisted strongly fearing such surveys would undermine their 'autonomy and authority (Ludden 2005: 108)'. Therefore such attempts had only been partially successful. A century later in 1925, Madras Government admitted in front of the Indian Taxation Enquiry Committee that it did not have any reliable information on rents, yields, holdings and incidence of revenue in the province even after a century of *ryotwari* system in the Presidency (GOI 1928: 75-7). Such vital information was maintained by the village officials but not by the district administration.

These village officials were not only powerful within villages but also used their predominant positions in climbing the ladders of local administration. They entered into the sub-district and district administration through connections such as caste, friendship and relationship (Frykenberg 1965). Hence, the dominance and ascendancy of traditional elites from higher castes or powerful landlords was reproduced and reinforced through collaboration with district administration. By strengthening interdependence between the district administration and themselves, local landed elites successfully retained their dominant position in the countryside.

As the British administration became more familiar with the actual functions of the customary system in which village officials played the pivotal role in maintaining land records, it was considered as inefficient and unfavourable as the northern *zamindari*

⁵ Baker describes the occasion of *Jamabandi*, annual recording of each *ryot*'s cultivation and the revenue demand, which shows how British administration was dependent on the information provided by the village officials. 'Five or six officers had to tour each district of some two million inhabitants in a couple of months of the hot season and visit each village. According to one such officer they divided their time between two day's duck-shooting to one day's jamabandi work, presumably because this task of putting Ricardian logic into practice was quite impossible in the first place' (Baker 1975: 110).

system. When decentralisation reforms were initiated by the Government of India in the late nineteenth century, the Madras Government was increasingly put under pressure to extend its control over the revenue settlement and saw in it a chance to reform the countryside. As soon as the Lord Mayo's Resolution on Provincial Finance in 1870 was passed, the Madras Presidency initiated its reform as early as in 1871. Local taxation, including land cess and house tax,⁶ was introduced accordingly and various developmental works were transferred to the local bodies (Saraswati 1973: 230). Local bodies were further empowered by the Madras Local Bodies Act, 1884, which provided for elections in the three tier local bodies, namely, district boards, taluka boards and union boards. Union boards were constituted for a village or a group of villages and they were given powers to levy local cess, house tax, tolls on carriages and various licence fees.⁷ The taxation power of local bodies was further enhanced by the Madras Village Panchayats Act, 1920. This reform process had, in effect, brought about a huge upset in the village level politics. The new village panchayats set up in 1920 were designed to be placed at the lowest level in a hierarchy of local-government institutions with the taxation powers and responsibilities to look after local facilities. Since the post of headman was brought open for elections, it was clear that the authority of traditional village officials were put at risk of losing their influence on village politics. While the government was certainly trying to bring them under its control and supervision by opening the sphere of village office to public, its stance on the future course of village administration was ambivalent. C. J. Baker summarises as follows;

The problem was that government was extending a closer and more centralized form of control over the Madras countryside, and that control was undermining the village officers' traditional role and making them both less effective and more truculent. ...[T]he

⁶ For the failing collection of house tax for the purposes of elementary education, see the section 1.1.3 Evaluating Local Self- Government in British India in Chapter 1 of this thesis.

⁷ The Act provided that the proceeds from house tax 'had to be spent on sanitation and improvement of village streets and that from tolls on roads and communications only' (Saraswati 1973: 234). It shows the government's attempt to increase the financial resources of local bodies while enhancing the responsibilities of village panchayats.

government still needed the village officers because they were a cheap form of rural administration, because they were still necessary to carry out new governmental duties (most notably in the business of requisitioning and distributing foodgrains during the second world war), and because it would be expensive and laborious to replace them (Baker 1984: 456-57).

Contrary to its initial intension, in the nascent era of the new local bodies, the British administration continuously depended on the expertise of headman and *karnams* in collection of local taxes. House tax, levied by the president of district board in union⁸ areas, was assessed by the union boards on the basis of the list of houses prepared by *karnams*, just as the assessment of land revenue (Saraswati 1973: 250-51). The expertise of these traditional village officers helped increase the revenue of newly constituted local bodies. From an outset, unlike in other regions, local bodies had collected substantial amount of own revenue. Table 3.1 shows that cess on land revenue and house tax constituted close to 70% of the total revenue of local bodies until 1900-01. By 1921-22, house tax yielded more than one million rupees, amounting to nearly 10% of their total revenue and the average house tax per house was one rupee, 6 annas and 3 pies in 1920 and rose to 2 rupees and 11 pies in 1929 (*Ibid*: 251). It was reported that in Tamil districts, all unions levied this tax. While village officials were playing crucial role in such improvement of tax revenue, certain changes in their political leadership were inevitable. Emerging new political class from the local bodies and corresponding decline of traditional village officials met growing non-cooperation movement in the early 1920s. Although the traditional elites' motives did not quite fit with that of the movement, they blended their discontent over the deprivation of their traditional powers by the government into this non-cooperation movement.⁹ Needless to add, the

⁸ 'Union' is a sub-district unit of administration.

⁹ One revenue official reports how discontented the traditional village officers were as follows; '[T]hey maintain with warmth that they have not resigned for political reasons. But because Government have not redressed the service grievances put forth by the village officer associations. During the conversation they also alluded to the loss of perquisites due to our surveys and settlements which let each *ryot* know exactly what he had to pay. But the last and decisive factor in the revolt is the recent reduction in the village establishment, by which they are deprived of assistant *karnams*, assistant headmen, *vettis* and *mohads*. Even the loyal headmen complained bitterly of this' (cited

government reacted against this with increased control and supervision on the rural livelihood.

As the financial status and political influence of local bodies was strengthened, the provincial government's control over them also increased. The Madras Panchayat Act XI, 1930 introduced the office of 'Inspector' of Local Boards and Municipal Councils, and a district panchayat officer was appointed for each district (ISS 1995). With the further development of the independence movement in the late 1930s, the local bodies supported the movement, which resulted in diverging themselves from the interests of the provincial government. Threatened by this emerging power of local bodies, the

Table 3.1: Income of Local Boards in Madras Presidency

	Average of 10 years, 1891-1900		1900-01		1903-04	
	Rs.	%	Rs.	%	Rs.	%
Cess on land	4,884,416	63.4%	5,264,603	62.9%	5,759,115	56.8%
House tax	330,340	4.3%	463,284	5.5%	581,254	5.7%
School fees	197,879	2.6%	222,968	2.7%	255,986	2.5%
Markets and choultries	392,076	5.1%	440,493	5.3%	520,368	5.1%
Tolls and ferries	922,085	12.0%	962,718	11.5%	1,056,418	10.4%
Other sources	975,950	12.7%	1,019,964	12.2%	1,967,559	19.4%
Total Income	7,702,746		8,374,030		10,140,700	

Source: Table XI 'Income and Expenditure of Local Boards, Madras Presidency', (GOI 1908: 139) (*Imperial Gazetteer of India: Provincial Series, Madras I*)

Madras Village Panchayat Act, 1941 allowed the government to take over certain functions of panchayats, and panchayats were required to obtain the approval of the Inspector in making decisions on certain cases. Thus, the government's control over local bodies gradually increased towards the end of colonial rule. This was particularly true in the case of district boards which had established considerable power as a local self-government in terms both of financial and political strength.

On the other hand, it was not only increased control that was being imposed on

local bodies but some supportive measures for local bodies were also taken. One of the major expenditure heads of local bodies was elementary education, for which the Madras Elementary Education Act 1920 authorised local bodies to levy education cess.¹⁰ The cess was credited to the elementary education fund of the district board to which the government contributed an equal amount as 'matching grant' (Saraswati 1973: 251). This matching grant was also applied to certain works for infrastructure building. Although they were grants that can only be spent on specified purposes, it certainly provided an incentive for local bodies to increase its revenue. Thus, the matching grant later becomes characteristics of Tamil Nadu panchayat system. In fact, there was already an increasing demand¹¹ that this 'matching grant' should be extended to land cess and house tax, which were discretionary resources of the local bodies and its use was not specified. The period just before independence in Madras witnessed an increasing interaction between local bodies and the State government in terms of both financial control of the former by the latter and incentives provided by the latter to the former.

3.1.2 Madhya Pradesh

On the contrary to the advancement in Madras Presidency, the development of local bodies in erstwhile Madhya Pradesh had been somewhat crippled by its regional diversity. The area currently called Madhya Pradesh had never been integrated under a single regime until Independence in 1947. Present Madhya Pradesh consists largely of regions of Madhya Bharat, Bhopal, Vindhya Pradesh and Mahakoshal, and is more diverse in terms of colonial experience than the present Tamil Nadu. The former three

¹⁰ It was provided in the Act that the education cess should not exceed 25% of the taxes leviable in the area including land cess, profession tax and house tax.

¹¹ Such demand is reported by Saraswati from debate in the legislative council in February 1920 (*Ibid*: 254) and after independence at the annual conference of the chamber of district boards held in Madras in December 1949 (*Ibid*: 71).

regions were more or less ruled by numerous princely states while only the last, Mahakoshal region was governed by the British government as part of the Central Provinces and Berar. It was only in 1956, nine years after independence, that the present Madhya Pradesh (then including Chhattisgarh) was created.

In terms of land revenue settlement, Central Provinces and Berar had a variety of tenurial arrangements when it annexed many territories under its rule in the early 19th century. By the 1860s, however, proprietary rights had converged in the hands of *malguzars*, almost equivalent to *zamindars*, who paid land revenue while receiving 15-25% on the gross collection of crops on their property and often engaged in money lending.¹² There were spots of *ryotwari* villages in the Narmada valley as it was sparsely populated and there were no true landlord tenures. In such areas, assessment was conducted in the *ryotwari* manner, but they remained different from the formal *ryotwari* villages in Madras Presidency, which required a detailed land survey and record maintenance (Jha 2002). The villages under *malguzaris* were basically left untouched by the government except at the time of land revenue settlement.¹³ District Gazetteers record several attempts by the British administration since the beginning of 1860s to have as accurate a land survey as possible for new settlements. However, due to the absence of 'professional' survey technology and reliable records, the administration had to wait until 1892-93 to complete the survey.¹⁴

In terms of the village level officials, villages in erstwhile Madhya Pradesh were much less equipped than their Tamil counterparts. One example in Betul district under

¹² Rothermund clarifies the difference between the traditional *malguzars* and moneylender landlords who, in the middle of 19th century, came to Narmada valley, which had increasingly become prosperous because of the expansion of railway lines. While traditional *malguzars*, in general, were less interested in land rights, moneylender landlords used their newly provided legal right to acquire land titles. (1978: 153-155).

¹³ Rothermund points out that even in the northern provinces, there were areas in which 'record of rights' existed, where a detailed up-to-date revenue record was maintained by the village accountant (*patwari*). But in case of the Central Provinces and Berar, even such rights did not exist, and hence no detailed land record was kept in villages (1978: 41-43, 96; 1983: 73).

¹⁴ *Madhya Pradesh District Gazetteers, Betul*, 1971, p.258-9.

Central Provinces (GOMP 1999 (1907 and 1928)) shows that one Revenue Inspector at each of seven headquarters was to supervise an average of 27 *patwaris* who were in charge of 7 villages. The position of *patwari* had been hereditary and was occupied usually by 'Malwi or Maratha or Brahmans', all of which were local landed elites (*Ibid.*: 218). In 1906 the traditional *patwari* system in which *patwari* funds were paid by proprietors and tenants was abolished¹⁵, and the maintenance of the Land Record Staff was taken over by the Government. Another example from the Gwalior State, the largest princely state in Madhya Bharat region that covered Guna and Ujjain, does not significantly vary from the case of Betul¹⁶. Since *patwaris* had traditionally held in charge of more than a few villages, land records were inevitably kept outside the village with him.¹⁷ At the village level, there was a village headman as in the case of Madras, but his responsibility did not include the management of land record. One anthropologist observed some villages in Central Provinces in the 1940s describes the responsibilities of village headmen as follows; to superintend the village; to preside at village councils and meetings; to collect the land revenue from the villagers; and to pay the amount either directly to the government or indirectly to the landlord (Fuchs 1968 (1960): 234). He also reports that in some villages even this village headman did not exist, in which case, farmers took turns in accommodating officials when they visit the village (*Ibid.*). This sharply contrasts with the *ryotwari* villages in Madras Presidency

¹⁵ For compensation of this arrangement, each *patwari* was paid Rs. 29,500 of remission, which was 'a substantial boon to the agricultural classes' (GOMP 1999 (1907): 218).

¹⁶ The Gazetteers of Gwalior State that covers areas of erstwhile Guna and Ujjain districts, states; 'Before the foundation of the Department of Land Records and the institution of a regular survey in 1890 the village records ... were kept by untrained *patwaris*, *chaudhris*, and *kanungos* who enjoyed grants of land in return for their services. No village maps existed, and an estimate, called the *takhmina* ... was prepared by rough calculation (GOMP 1999 (1908): 101). In 1890, this system was abolished and villages were divided into circles under *patwaris* who were 'carefully trained'.

¹⁷ This seems to be the case even today in some parts of Madhya Pradesh. In Ujjain, when the researcher asked for land records of the particular panchayat, which, was supposed to be kept at the village panchayat office according to the Panchayat Act of 1994, local *patwari* went back and brought the map and other related records from his house which was located in a town 15km away from the village. Being in charge of several villages, he claimed that it was more convenient to keep the records at home rather than in the village where he did not visit too often.

where detailed land record was kept at the village itself even before the British rule by the *karnams* in collaboration with the village headmen.

As far as formal institutions are concerned, many former princely states in Madhya Bharat, Vindhya Pradesh and Bhopal did not have local bodies, and even if they did, most of them had remained nominal institutions¹⁸. Even in Mahakoshal region, which was under the government of Central Provinces and Berar, the development of local bodies was not remarkable. The Central Provinces and Berar Local Self Government Act, the first legislation on local self-government, was passed in 1883. District Councils and Local Boards, the latter acting as an agent of the former, were established but the Local Boards had neither independent income nor practical duties until at least 1910¹⁹. Following the Government of India Act, 1919, which sought more popular representation and less control by the local bureaucracy in local self-governments, the Central Provinces and Berar Local Self-Government Act of 1920 was enacted. The Act widely enhanced the financial powers of local bodies, created an electorate on a liberalised franchise, increased the proportion of elected members, practically eliminated official members and relaxed overall official control.²⁰ The functions of District Councils and Local Boards included construction and maintenance of roads and the establishment and management of schools. However, without previous experience in financial management, the elected representatives in Berar could not manage to collect taxes²¹, and were reported to have made complaints that ‘the odium of (tax) collection

¹⁸ For example, Gazetteer published in 1908 for the Gwalior State, the largest princely state in erstwhile Madhya Pradesh, has the section of ‘Local and Municipal’ with less than one page. The first municipality was established for Lashkar city in 1887 but abolished after four months since ‘it did not prove a success’. In 1891 a fresh municipality was formed and assumed functions such as sanitation, lighting of the town, maintenance of roads and public structures. By 1908, there are municipalities in 11 towns including Guna and Ujjain, but there is no mention about any lower level of bodies (GOMP 1999 (1908): 109).

¹⁹ *Madhya Pradesh District Gazetteers, Damoh*, 1971, p.285.

²⁰ Central Provinces and Berar, *A Review of the Administration of the Province 1921-1922*, Vol.1, Nagpur: Government Printing, Central Province, 1923.

²¹ Data from gazetteers published in 1928 for Betul district shows that apart from newly introduced ‘local cess’ which is collected in addition to the land revenue, the district board did not have own tax or substantial non-tax revenue since its inception in 1891 (GOMP 1999 (1907 and 1928): 346-349).

should fall on government'.²² Frustrated with the poor political awareness among the elected representatives, the Chief Secretary in Central Provinces reported in a letter to the Secretary to the Government of India:

In the Central Provinces and Berar there are nearly fourteen million people of whom ...less than 5 per cent., are literate...In this matter of removing the ignorance of the electorate it is significant that the local bodies, which are for the most part dominated by the higher castes with leanings towards the Swaraj creed, have so far shown no inclination to take advantage of the compulsory Primary Education Act....The position of the Government is a difficult one..., the case for the Government is never placed before the electorate and cannot be placed before it during an election so long as the Government Servants' Conduct rules remain in force....[T]ime is necessary for the development of responsibility in the electorate and for the growth of proper relations between the constituencies and their representatives.²³

Elected representatives of local bodies were so concerned with matters outside the jurisdiction of local bodies²⁴ that it discouraged further devolution of power. Contrary to the spirit of the Act, devolution to local bodies in Central Provinces and Berar was very limited and so was the development of any other relations between local officials and local bodies.

Some of the most advanced princely states in terms of statutory local bodies were in Madhya Bharat region. Holkar State enacted Panchayat Law in 1920, which was followed by other princely states such as Gwalior, Indore, Dewas Senior, Dewas Junior, Dhar and Naraingarh (GOI 1963: 50).

To summarise, before uniform panchayat institutions were established after independence, the historical paths that Tamil Nadu and Madhya Pradesh took were far from similar. Madras Presidency was very much advanced in terms of the development of local bodies. Local bodies had been trained as local self-government since the late 19th century, and had accumulated expertise and wealth. This was possible owing to the existence of the traditional village officials who kept detailed revenue related records at

²² *Local Self-Government Department Resolution* (No.383/192-VIII, 15 February 1923), cited in Misra (1983).

²³ *Reports of the Local Governments on the working of the Reformed Constitution, 1924*, Reforms Office.

²⁴ They were more concerned about the nationalist movement as most of them belonged to political parties, most of which were only concerned in their political demands than the development of the area.

the village level. By the 1930s, they became mature and wealthy enough to attract the provincial administration which could not ignore them due to their financial power and significant presence in development activities in the districts. The provincial government went so far as to create a position of Inspector to monitor the activities of local bodies, which continues till today. The administration of local bodies and the provincial government had worked together in increasing and managing the revenue of the former. In the course of decentralisation reforms in colonial India, village headmen and *karnams* were thus, increasingly put under the vigilance of the provincial administration. In a sense, Madras Presidency had relatively successfully established the system of local self-government by incorporating already existing village officials at the basis the administration. To use the words of Joel Migdal, the colonial regime in Tamil Nadu partially succeeded in penetrating the state apparatus into the countryside. Unlike in many 'weak states' in the south, the Madras Presidency had relatively well established its control over local 'strongman' by effectively removing the traditional forces from the official posts of local bodies. Although the number of local bodies was still limited, this changed environment has certainly set the conditions for the State government of Tamil Nadu to develop administrative capacity in the post independence period.

On the other hand, local bodies in present Madhya Pradesh practically did not exist in many parts of the State before independence, and the few that did were not as active as those in Madras Presidency. Under the *malguzari* land revenue system, landlords were kept its semi-independent position vis-à-vis the state. Unlike in Madras Presidency whose land revenue settlement was largely *ryotwari* system, village elites and local administration in central India had little experience to work together in keeping land revenue record, managing land revenue. Although many landlords became elected representatives of the local bodies following the decentralisation reform, they had little

intension of cooperating with the agents of the foreign ruler in the wake of independence movement. They, therefore, had practically no experience of actual management of local administration or interaction with the provincial administration. In a sense, the colonial regime of erstwhile Madhya Pradesh failed to take a firm grip over the traditional social forces not to mention over the local bodies. The state apparatus under the colonial regime never succeeded in penetrating into countryside, the condition which, Migdal claims, the 'strong' states requires.

3.2 Administration and local bodies in post independence era

3.2.1 Tamil Nadu

At the time of independence, the system of local self-government in Madras was more advanced than many other parts of India. Even in the debate with regard to the future system of local self-government after independence, the premise of the system was different from that of many parts of the country. When the focus of debate at the national level was over the significance of statutory panchayats with functions and resources, it was debated in Madras how much autonomy should the panchayats have vis-à-vis the State government (Saraswati 1973: 62). However, this image of Tamil Nadu as being a champion of the local self-government is not something we are familiar with at present. What happened in post-independence Tamil Nadu might explain why.

Immediate post independence period in Madras²⁵ witnessed a vibrant debate over the future of the local self-government with a number of committees and conferences set up for the purpose. There were two major questions drew attention in the debate. The first question was about whether or not district boards should continue and the second was about autonomy versus official control. The issues of autonomy and

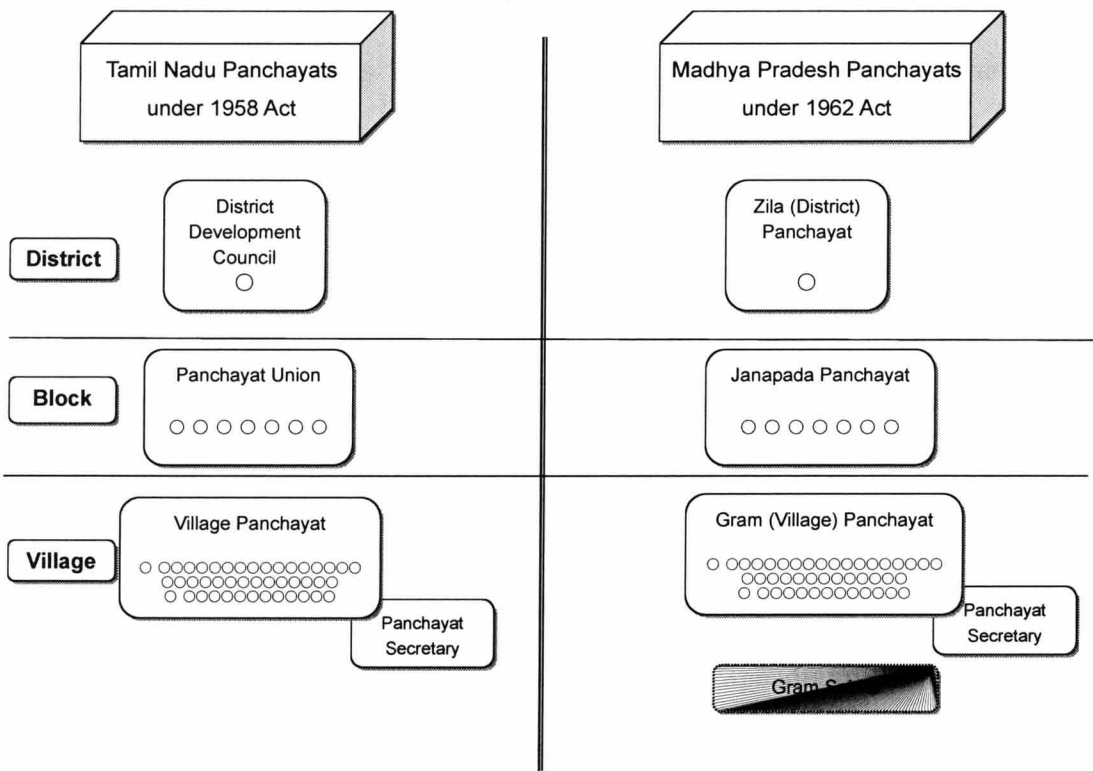
²⁵ Erstwhile Tamil Nadu was called Madras until the bifurcation of the State in 1956 that created Tamil Nadu as a State for Tamil speaking population.

elections have significant implications up until now.

- State legislation:

Following thorough debate in legislative council and assembly, Madras Panchayat Act, 1958 (henceforth 1958 Act) was enacted.²⁶ 1958 Act for the first time in Madras introduced three-tier system, with newly established ‘Panchayat Union’ between Village Panchayats and District Development Councils (Figure 3.1). Following the recommendation of Barwantrai Mehta Committee at the Centre, panchayat union assumed the major responsibility to implement Community Development programmes. As a result, much of the financial resources as well as administrative jurisdiction granted to village panchayats and district boards in earlier legislation was in a sense,

Figure 3.1: Structure of PRI in post independence legislation in Tamil Nadu and Madhya Pradesh



²⁶ The first panchayat Act in post independence period was the Madras Panchayat Act, 1950. 1950 Act somewhat succeeded the two-tier system during the British period and the district boards still retained considerable amount of financial resources as well as administrative jurisdiction.

taken away by the panchayat union exerting powers of village and district level panchayat. Together with Panchayat Union, panchayats were supposed to be in charge of the implementation of development programme. Since district boards were taken away many of its powers and reshaped as District Development Councils, the latter became purely an advisory body and hence, Madras is in effect working a two-tier Panchayati Raj system. The details of the provisions of the Act is summarised in Table 3.2.

- Relationship with VP and local administration:

Reporting and audit were conducted by the Extension Officer (Panchayat, EO(P)) quarterly²⁷ and furnished to the revenue divisional officer through divisional panchayat officers (*Ibid*: 141). The similar system is provided for the panchayat unions which were supposed to maintain as many as 18 separate registers for the maintenance of different government grants and assigned revenue (*Ibid*). Similarly the revenue divisional officers have to maintain 7 registers and District Collector 6 registers, all concerning with account management of panchayats and panchayat unions (*Ibid*).²⁸ The task of Inspector assigned to the District Collector in the 1930 Act remained in the 1958 Act. Its responsibilities included; constitution of panchayats; extension/reduction of the term of office of elected members; and removal of president or vice-president after examining the written explanation for wilfully omitting or disobeying the provisions of the Act (*Ibid*: 174-75). Moreover, the District Collector was delegated some powers of the government which involved; payment of village house tax matching grant to panchayats; issuing special orders regarding expenditure from the funds of village panchayats; modifying panchayat union budget; issuing directions for the

²⁷ This original provision of quarterly audit was changed to half-yearly audit in 1965 at the suggestion of the study team on panchayat finances (*Ibid*: 142)

²⁸ Six registers to be maintained by the District Collector includes; 1) assigned revenue (local cess surcharge); 2) local cess surcharge matching grant to panchayat unions; 3) local roads grant; 4) village house-tax matching grant to panchayats; 5) local irrigation grant and 6) excess kudimaramath grant.

Table 3.2: Summary of panchayat legislations in the post independence period

	Tamil Nadu	Madhya Pradesh
	1958 Act	1962 Act, (GOI 1963: 46-8)
Name	Madras Panchayats Act (Madras Act No. XXXV of 1958)	Madhya Pradesh Panchayat Act, 1962
Structure	Three tier panchayat; Village Panchayat, Panchayat Union and District Development Council	Three tier panchayat; Gram Panchayats, Janapad Panchayats, Zila Panchayats. Gram Sabha will be constituted for a village or more with a population of 1000 or more.
Size of VP	A village panchayat covers a population not less than 500. Localities with not less than 5000 population and with a normal annual income of not less than Rs. 10,000 are classified as Town Panchayats.	Normally, a gram panchayat covered a population of 1000 and consisted of 10 wards. 100 eligible voters elected one panch.
Elections	by secret ballot. 5-15 elected members in each panchayat. Reservation for SC/ST. Cooption for a woman	Election for at least 10 members with one additional member for every unit of 250 members of population over 1000. Reservation for women and cooperative societies
Panchayat Union	373 unions. Average population per block is 66,200. A Panchayat Union consists of Presidents of all Panchayats in the block and 6 co-opted members, 3 women and 3	The Panchas and Sarpanchas of constituent Gram Panchayats within a block will elect, from among themselves, members of JP.
District	District Development Councils are purely advisory in character with no executive functions and their advice is limited to functions which are transferred to Panchayats and Panchayat Unions. Chairman of all Panchayat Unions, all MLAs, MLCs and MPs of the district, Chairman of Municipal Councils, Presidents of the Cooperative Central Banks and gazetted Officers of Government in the District concerned with Planning and execution of development schemes are members of development councils. They meet once in two months. Apart from 5 standing committees (food and agriculture, industries and labour, public works, education, and health and welfare including prohibition) a standing committee called General Committee to deal with items of work which are general in nature covering all aspects of development has been constituted with the Collector as the Chairman and Chairman of the five standing committees as members.	A Zilla Panchayat will be constituted for each district. It will consist of President of all JP within the district, local MPs and MLAs and district officers representing Public Health, Agriculture, Veterinary, Education and other Development Departments in the district. Besides advising the government on matters relating to developmental activities and co-ordinating and consolidating the block plans, ZP will have to examine and approve the budgets of JP and distribute among them the funds allotted to the district by the State and Central Governments. They will have no power of taxation.
Obligatory functions	Construction, repair and maintenance of all village roads, and of all bridges, culverts, road-dams and causeways on such roads; the lighting of public roads and public places in built-up areas; the construction of drains and the disposal of drainage water and sullage; the cleansing of streets, the removal of rubbish heaps, jungle growth and prickly-pear, the filling in of disused wells, insanitary ponds, pools, ditches, pits or hollows, and other improvements of the sanitary conditions of the village or town; the provision of public latrines and arrangements to cleanse latrines whether public or private; the opening and maintenance of burial and burning grounds; and the sinking and repairing of wells, the excavation, repair and maintenance of ponds or tanks and the construction and maintenance of water-works for the supply of water for washing bathing purposes and of protected water for drinking purposes.	More important among them is sanitation, lighting, supply of drinking water, medical relief, registration of births, death and marriages, repair and maintenance of public wells, tanks, ponds, and minor irrigation works.
Discretionary functions	Planting and preservation of trees; the lighting in areas other than built-up areas; opening and maintenance of public markets; the control of fairs and festivals; opening and maintenance of public landing places, halting places and cart-stands and of public cattlesheds; the opening and maintenance of public slaughter-houses; the opening and maintenance of reading rooms; the establishment and maintenance of wireless receiving sets, playgrounds, parks, sports clubs and centres of physical culture; the opening and maintenance of literacy centres and centres for imparting social education; and the construction of works of public utility and the provision of other facilities for the safety, health, comfort, convenience, culture or recreation of the inhabitants of the village or town.	Planting of trees, agricultural development, promotion of cooperative farming, construction and maintenance of playgrounds, libraries, reading rooms and community centres.
Compulsory levy	House tax, profession tax, vehicle tax and any other tax or any cess or fee (sections 119-122); proceeds of the duty on transfers of property (section 124)	Land cess @ 10 nP. Per rupee of land revenue; tax on buildings; tax for cleansing private latrines; lighting tax; profession tax; fee on persons exposing goods for sale in any market or place belonging to it or under its control or for the use of any building or structure therein; fee on registration of animals sold in any market or place belonging to it or under its control.

Optional levies	Fees in public markets, contribution paid by panchayat union councils in respect of markets classified as panchayat union markets; fees for the temporary occupation of village-sites, roads; net assessment on service inams which are resumed by the government.	Tolls on vehicles and pack animals bringing goods for sale into its area; tax payable by owners of animals used for riding, driving, draught, etc; tax on carts, bicycles and rickshaws; fees for use of Sarais, dharamshalas, rest-houses, slaughter houses and encamping grounds; water rate where a regular water-supply is maintained by the Gram Panchayat; drainage fee; fees from persons practising the calling of buyer, broker, commission agents, weigher or measurer; fees on vehicles other than motor vehicles; temporary tax for special work of public utility; general sanitary cess for construction or maintenance of public latrines and for removal and disposal of refuse; fee on cart stands and tonga stands; fee for temporary erection on, or putting projection over, or temporary occupations of any public street or place; fee for grazing cattle on its grazing lands; and any other prescribed tax which the State Legislature has power to impose under the Constitution of India.
Budgets	Every Panchayat and every Panchayat Union prepares an annual estimate of its income and expenditure. Prior to their being placed before Panchayat or Panchayat Union, they are sent to a prescribed officer. After they are approved by such officer they are placed before the Panchayat or Panchayat Union Council. If there is a difference of opinion between the officer who approved the budget in the first instance and Panchayat or Panchayat Union Council, then the budget is submitted to the Inspector of Local Boards in the case of Panchayat and to Government in the case of Panchayat Union Council. The Inspector and the Government have the power to modify the budget.	All the three tiers of PR are required to frame annual budgets of their income and expenditure. Gram Panchayat budget is required to be forwarded to its JP for approval. The budget of JP will have to be approved by its ZP.
Other remarks	Many assigned revenue. House tax matching grant; the Government gives half-yearly to every Panchayat an amount equal to the house tax collected in the previous half-year. Local cess, stamp duty and entertainment tax (90% comes to VP) are levied by the State government and assigned to panchayats.	Establishment of Adivasi Panchayats, at the discretion of the State government in areas inhabited predominantly by ST. Sarpanch is nominated by the government from amongst the elected panches. Adivasi Panchayat has no powers of taxation.

recovery of loans and advances made by the government; and dissolution of a panchayat if it is not found competent to perform or if it persistently makes default in performing the duties imposed on it by law or exceeds or abuses its power and direct its reconstitution (*Ibid*: 179). Thus, on top of the audit conducted by EO(P), the District Collector retains comprehensive powers with regard to the constitution/dissolution of panchayats. Such supervisory and regulatory powers were ensured by the above mentioned arrangements for reporting and maintaining registers by each officers.

On the other hand, there was also an incentive mechanism provided by the State government. House tax matching grant was provided in Madras Panchayat Act, 1958 in section 119 (Saraswati 1973: 21) based on the recommendation of the Legislature sub-committee (*Ibid*: 119). 1958 Act guaranteed the allocation of the equal amount of matching grant as the house tax collected in the panchayat. House tax matching grant was a discretionary fund of the panchayats without any specified purposes attached

(*Ibid*: 135). It was the task of the District Collector to allocate house tax matching grant in each panchayat once in a half year.

- Role of secretary and village administration

In the village panchayat, the division of labour that had been established during the colonial era was challenged after independence. As was used to be the case during the colonial period, the *karnam* was still responsible for the maintenance of all records and registers relating to the assessment and collection of taxes. Both *karnams* and headmen had to attend the special meetings of the panchayat convened to discuss planning (*Ibid*: 157). However, with regard to the maintenance of accounts of panchayats, it was the newly elected panchayat president as well as panchayat secretary who were to play the major role. The State government ordered in 1961 to introduce the position of panchayat secretary or the part-time clerk to maintain cash accounts and register of bills and prepare a statement of the financial position of the panchayats (*Ibid*: 142).²⁹ The panchayat president was required to prepare replies to the audit report, place them before the panchayat and forward them to the divisional panchayat officer for review. Fearing to lose their vested interest, the Tamilnad Village Karnams' Association strongly opposed to the idea by claiming '*karnams* should be appointed as part-time clerks of panchayats on a scale to be fixed for the panchayat part-time clerks (*Ibid*: 158).' The Tamilnad Village Officers' Association also demanded the government that the village officers (headman and *karnam*) should be made ex-officio members of the village panchayats (*Ibid*: 159). The government did not reverse its earlier decision to grant discretion to panchayats in using *karnams* as clerks and the hereditary superior position of village officers was gradually eroded.

With regard to the tax collection, there was a double-layer arrangement made

²⁹ Under the Panchayat Act, 1950, panchayats were classified into Class I (Town Panchayat in the 1958 Act) and Class II. In Class II panchayats, there were no secretaries (GOI 1960: 184). It is only from the 1958 Act that all the panchayats were required to appoint either full-time or part-time secretaries.

within the village. The assessment lists with regard to house tax, profession tax, vehicle tax, license fees were prepared by the village panchayat and handed over to the village official (headman in this case) who belongs to the revenue administration and who was made responsible for collecting the dues and remitting them to the credit of the panchayat (GOI 1963: 59).³⁰ The Tamilnad Village Officers' Association was against this arrangement and demanded the government that 'the panchayats should ...be entrusted with the responsibility to collect panchayat taxes (Saraswati 1973: 159).' The government did not change the arrangement itself and merely asked the presidents to render help in the collection of taxes. In this period of transition, village officers, both headmen and *karnams*, were gradually losing its influence over village politics. Yet, they still played an important role in collecting panchayat taxes for meagre amount of remuneration paid by the government despite the fact that they were not the employees of the panchayat.³¹ Remaining at the lowest rank of revenue administration, the position of village officers was steadily declined but yet, they functioned as a crucial link between the local administration and panchayats.

- Financial resources

Tamil Nadu panchayats have more own income than grants received from the State government. As can be seen in Table 3.3, income from the government grant is mere 4% on average of the total revenue while the same figure for own revenue is more than 95%, out of which income from taxes comprises more than 60% of the total revenue. However, out of more than 95% of own income, 46% is the assigned revenue such as stamp duty surcharge and entertainment tax which is levied by the State government and 90% of which is later transferred to the panchayats as their own income. Although the grants from the government are seemingly limited, the strength of the Madras

³⁰ In case of town panchayats, they had their own collection staff.

³¹ Emulation for *Karnam* was Rs. 12-15, village headman Rs. 5-7 and *Talayari*, *karnam*'s assistant, Rs. 2-3 (*Ibid*: 158).

panchayat finance lies in these statutory own revenue sources assigned to the panchayats by the State government.

Out of own tax sources, compulsory taxes are house tax, profession tax and vehicle tax (Section 119-122). House tax is the single largest source of income comprising 31.2% on average of the total revenue and entertainment tax (26.3%) and stamp duty surcharge follow (16.9%). There were also provisions in the 1958 Act which allowed villagers to appeal against the assessment of the taxes. According to the study by the Programme Evaluation Organisation of the Planning Commission, Government of India during 1958-59, two appeals were made in terms of profession tax and seven appeals as for house tax in a panchayat under study in Madras (GOI 1960b: 188). With regard to house tax, out of seven appeals, four cases were totally exempted due to economic distress and three were reduced (*Ibid.*). Such arrangement demonstrates the institutional maturity of the panchayats' tax administration in Madras.

Table 3.3 Income of Village Panchayats for 1960-61 (Average of studied panchayats)

	Total Income	Revenue from Taxes		Non-tax Revenue		Government grants		Income from property and miscellaneous	
	Rs.	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Andhra Pradesh	19,901.25	8,149.88	41.0%	2,824.25	14.2%	7,465.25	37.5%	1,461.88	7.3%
Bihar	1,086.50	5.00	0.5%	9.25	0.9%	663.50	61.1%	408.75	37.6%
Madras	642.00	111.50	17.4%	385.50	60.0%	121.50	18.9%	23.50	3.7%
Maharashtra	18,078.50	3,887.50	21.5%	803.00	4.4%	10,127.50	56.0%	3,260.50	18.0%
Mysore	11,615.11	2,776.11	23.9%	2,327.78	20.0%	5,079.33	43.7%	1,431.89	12.3%
Orissa	7,295.00	0.00	0.0%	411.67	5.6%	5,120.33	70.2%	1,763.00	24.2%
Punjab	5,653.67	243.67	4.3%	666.67	11.8%	1,992.67	35.2%	2,750.67	48.7%
Rajasthan	34,035.83	2,094.50	6.2%	842.67	2.5%	6,067.33	17.8%	25,031.33	73.5%
Uttar Pradesh	3,089.25	382.25	12.4%	191.00	6.2%	1,729.75	56.0%	786.25	25.5%
Total	12,337.77	1,099.31	8.9%	887.96	7.2%	3,997.88	32.4%	6,352.63	51.5%

Source: Comprised by author with the data from 'Report of the Study Team on Panchayati Raj Finances Part II' (GOI 196
Note: Although the Team studied fifteen major States including Madhya Pradesh as well as seven union territories, no financial data with regard to Madhya Pradesh panchayats was published in the Report.

3.2.2 Madhya Pradesh

- State legislation:

Being a mixture of different regimes for long, the newborn State created a new uniform panchayat act only in 1962. Even after the enactment of Panchayat Act,

however, due to the different tenures of earlier panchayat institutions, new village panchayats took three years to be set up. The delay was even more apparent at the sub-district level, where different institutions existed though inactive since the elections were not held to them until finally in 1972. The State did not even constitute district panchayats till 1984 (ISS 2000).

Madhya Pradesh Panchayat Act, 1962 (henceforth, the 1962 Act) laid the basis of the panchayat system in the State in post independence period. The summary of the 1962 Act is shown in Table 3.2. The 1962 Act provided the three tier panchayats namely, Zila Panchayat at the district level, Janapada Panchayat at the block level and Gram Panchayat at the village level (Figure 3.1). Unlike the 1958 Act of Madras, the 1962 Act also provided for institution of Gram Sabha which was to be constituted for a village or more with a population of more than 1,000.

- Relationship with officials; Audit system:

Janapad Panchayat has important powers of supervision and control over village panchayats. It may reverse a resolution of the panchayats, employ panchayat inspectors and complain to the government against a panchayat if the latter works unsatisfactorily (Sharma 1963: 37). Unless directed otherwise by the government, these powers are exercised by the Chief Executive Officer of the Janapad Panchayat (*Ibid.*). However, Sharma reports these supervisory powers did not appear to be frequently exercised by Janapad Panchayats (*Ibid.*). Matters regarding with the local self-government were in the jurisdiction of the district social welfare officer of the Social Welfare Department while the developmental work of the panchayats is supervised and directed by the BDO of Rural Development Department. The power of supervision over the panchayats was retained by the State government and the officers in charge include the director and deputy director of social welfare department, all revenue officers of the government not

lower in rank than a Naib-Tahsildar³². However the supervision of panchayats was not the main duty of these officers and hence, they tend to dismiss this duty. As a result, panchayats were 'very infrequently inspected', and some of them were 'not inspected at all' (*Ibid*: 38). The study by the Programme Evaluation Organisation notes that one panchayat in Indore district of Madhya Pradesh was inspected 'officially on an average 2.8 times a year between 1952 and 1955 and 4.3 times a year since 1956 (GOI 1960b: 52)³³.' But the report also notes that there had been 'very little, if any, follow-up of the inspection notes (*Ibid*: 53).' For instance, most of the inspection notes over the period of eight years have mentioned that proper registers showing arrears of taxes should be maintained. But the panchayat failed to comply with the instruction with the result that 'even today it is not possible to know the exact amount of taxes in arrear (*Ibid*).' In any case, audit and inspections by the State administration had not been effective due to either sheer negligence or lack of systematic approach for ensuring compliance. There was little aid or guidance from the government available for panchayats.

On the other hand, lack of guidance does not mean flexibility on the side of panchayats to function. Getting approval of a scheme was difficult and too many sanctions from administration were required, which made panchayats feel helpless and dependent on government officials (Sharma 1963: 39). When it comes to actual implementation, the project staff of the block took initiative in ensuring completion but panchayats had little say. Instead, panchayats were merely expected to mobilise necessary contribution from villagers in cash and in labour which most community projects required as a condition of giving grants (*Ibid*: 40). The relationship with the officials was thus, very much limited in the sphere of developmental works and even

³² Tahsildar is the head of the revenue administration at the sub-district level and Naib-Tahsildar is his subordinate who coordinates a number of patwaris.

³³ The same reports explains the inspection notes to be 'stereotyped' and touch 'on a very few items'. The items to be checked include cash book, vouchers, death and birth registers and collection of taxes. The inspection notes will then

that limited interaction was not complementary in a sense of nurturing the development of panchayats.

- Role of secretary and village administration

Panchayat can hire a secretary to conduct day to day functions of panchayats.³⁴ The duties of secretary are listed as follows; to call the meetings of the panchayat, prepare the budget, help to realise the taxes, send reports and other information to higher authorities, attend to the correspondence, prepare schemes of improvement, and make arrangements for celebration of functions and festivals (GOI 1960b: 202). However, it was reported that the secretary had 'neither adequate training nor' did 'he receive effective guidance from higher officials (*Ibid.*).’ Out of 20 panchayats studied by Sharma, five panchayats did not have a secretary and where there were secretaries, they have to look after two to five village panchayats (Sharma 1963: 51, 72). This is considered to be one of the major factors impeding revenue mobilisation as well as proper record maintenance by panchayats (*Ibid.*: 51). While all the secretaries of panchayats under study were educated up to middle school or more and most of them were trained (*Ibid.*: 94), lack of competence is argued to be '[t]he first and the foremost problem (*Ibid.*: 72)’. While competent secretaries can play crucial role in arranging for panchayat meetings, collecting taxes and keeping accounts, such cases were rarely witnessed. Respondents of the questionnaire by Sharma also pointed out appointment of a 'well-educated and trained secretary on adequate salary, having charge of a single panchayat only' to be one of the remedies should be taken by panchayats (*Ibid.*: 73).

- Financial resources

Compulsory taxes to be levied by the panchayats provided by the Madhya Pradesh

³⁴ Programme Evaluation Organization records that before 1952 the headmaster of the primary school acted as the ex-officio honorary secretary of the panchayats (GOI 1960b: 50). In some panchayats, the appointment of secretary was done by the sub-district panchayats under the Group Panchayat Secretary Scheme, which appeared to have encouraged appointments of Scheduled Castes (*Ibid.*). One panchayat under study was reported to have the secretary from Scheduled Caste educated upto the middle standard (*Ibid.*).

Panchayats Act, 1962³⁵, were land cess, house tax, tax for cleansing private latrines, lighting tax, profession tax, license fee on trading and on registration of animals sold but only a few of them were levied in practice (GOI 1963: 46). The details of income of panchayats studied by Sharma are shown in Table 3.4. On average, it was found that house tax was the largest own income source comprising 36.7% of total income of panchayats which was followed by profession tax (6.8%) and land cess (4.0%) (Sharma 1963: 45)³⁶. Although these three tax heads were all provided as compulsory tax in the

Table 3.4: Income of 13 panchayats in Madhya Pradesh from regular sources

Name of the block studied	No. of panchayats studied	Population covered	Total Income of panchayats from regular sources	From taxes							% to the total revenue from regular sources
				House tax	Land tax	Profession tax	Market tax	Vehicle tax	Latrine tax	Total	
Banda	2	4,420	8,257	4,824	165	-	-	-	-	4,989	60.4%
Deori	2	3,771	3,248	912	89	318	-	373	-	1,692	52.1%
Jaishrinagar	3	6,390	1,609	69	240	106	442	-	-	857	53.3%
Khurai	2	3,543	1,960	296	175	129	-	-	-	600	30.6%
Rahatgarh	2	3,000	982	-	80	17	216	-	-	313	31.9%
Rehli	2	5,582	10,669	2,759	253	947	1,704	704	1,514	7,881	73.9%
Total	13	21,124	26,725	8,860	1,002	1,517	2,362	1,077	1,514	16,332	61.1%

From other than taxation						Regular government grants	% to the total revenue from regular sources	Grand total	Total per capita income from taxes	Total per capita income from other independent sources	Per capita income from regular government grants	Percentage of income from taxes to total annual income from regular sources	Total per capita income from regular sources
Fines	Manure Pits auction	Commission revenue collection	Miscellaneous	Total	% to the total revenue from regular sources								
18	-	-	2,713	2,731	33.1%	537	6.5%	8,257	1.13	0.62	0.12	60.4%	1.87
17	-	33	1,350	1,400	43.1%	156	4.8%	3,248	0.45	0.37	0.04	52.1%	0.86
-	-	180	17	197	12.2%	555	34.5%	1,609	0.13	0.03	0.09	53.3%	0.25
-	-	-	1,250	1,250	63.8%	110	5.6%	1,960	0.17	0.35	0.03	30.6%	0.55
-	-	129	333	462	47.0%	207	21.1%	982	0.10	0.15	0.07	31.9%	0.33
-	5	123	2,482	2,610	24.5%	178	1.7%	10,669	1.41	0.47	0.03	73.9%	1.91
35	5	465	8,145	8,650	32.4%	1,743	6.5%	26,725	0.77	0.41	0.08	61.1%	1.27

Source: Sharma (1963)

³⁵ Report of the Programme Evaluation Organization states that under 1952 Act, the compulsory tax was only land cess and labour tax while in 1956 Amendment, the house tax was added as compulsory tax and a few more optional taxes such as profession tax, light tax and cycle and vehicle tax were imposed (GOI 1960b: 54). The provisions in 1962 Act explained above thus, further enhanced compulsory taxes.

³⁶ But it was only in 8 of 15 panchayats that the house tax was found to be the largest tax source while in others, land cess or bazaar tax were the largest income head (*Ibid*: 43-4).

Act, the system of tax administration was different depending on each tax. The only similarity is that for all the taxes and cess, the rates were provided by the State government. But in the case of house tax, valuation of the property and collection were done by the panchayats which tended to leave some room for partiality. Undervaluation due to neglect of revaluation of property and discrimination between assesses due to lack of impartiality were reported (*Ibid*: 47). As a result, it was found that house tax was the most unpopular tax among villagers (*Ibid*: 50, 99). In the case of profession tax³⁷ and land cess, such difficulty in assessment was not reported as much since the scales were fixed. Regarding land cess, assessment list was prepared by the *patwari*, the amount was collected by revenue *patels* in each village and the proceeds were handed over to the panchayat president. Since in many cases, revenue *patels* tended to be the powerful landlords of the village who often became panchayat presidents, it is no wonder if there was little record found with regard to this cess. In fact, in almost half of the studied panchayats, no records were reported to be available about the proceeds of this land cess (*Ibid*: 48).

Unlike other taxes, great difficulty was reported with regard to the collection of house tax. In 10% of the panchayats, house tax was levied but no amount could be collected (*Ibid*: 47). In 30% of the panchayats, it was levied and collected in the early years, but could not be collected at the time of the study. Although there was a provision in the earlier Act that arrears of any tax could be recovered by the District Collector as in the case of land-revenue, neither officials nor panchayat were unwilling to act on this (*Ibid*.). Report of the Programme Evaluation Organization suggests that the panchayat started facing some difficulty in tax collection after 1956 amendment to the Act which increased the number of taxes to be levied by panchayats (GOI 1960b:

³⁷ Generally it was only the larger merchants and traders who were taxed but occasionally in some panchayats, other professions such as barbers, washermen and blacksmiths were also taxed. Probably due to small number of possible tax payers, not much opposition was reported (*Ibid*: 48, 66).

55). It shows an example of one panchayat in which the panchayat referred to the Tehsildar (sub-district revenue officer) 51 cases of default, involving taxes amounting to Rs. 705 at the end of 1958-59 (*Ibid.*). The reason of dissatisfaction and dispute with regard to house tax is attributed by Sharma partially to 'the resentment at being taxed by the immediate neighbours (Sharma 1963: 50)'. However, considering the fact that land cess did not cause much discontent, this explanation might not be sufficient. In the case of land cess, the villagers were often unaware of being levied since it was a surcharge on the land revenue collected at the same time. The tax administration of land revenue had been built up in the course of many centuries while the same for house tax just appeared some decades ago at most. The discontent was, in a sense, inevitable. It is perhaps for this reason that the amended Panchayat Act of 1962 provided the exemption of house tax for houses whose capital value does not exceed Rs. 1,000 (GOI 1963: 47). The Study Team on Panchayati Raj Finance commented that in rural areas in those days, most houses would come under this category (*Ibid.*)³⁸.

Apart from the taxes and limited assigned revenues, regular grant from the government is very limited except for ad-hoc grants for specific purposes being distributed on a certain occasion such as visits of Minister in the region. The only regular grant from government is called *vikas nidhi* (development fund) but it was revealed that not many panchayats receive this grant (*Ibid.*: 53). Although all the panchayats are entitled to this grant, *vikasnidhi* has to be first claimed by the panchayat itself and if the grant for any year lies unclaimed for 3 years, it lapses. Many panchayats are unaware that they are entitled to this grant. The major resources, therefore, are taxes and other income levied by panchayats.

³⁸ Unfortunately, the data following this legislative change is not available, which prevents us to observe the changes.

3.3 Administration, local self-government and policy environment in the post 73rd Constitutional Amendment

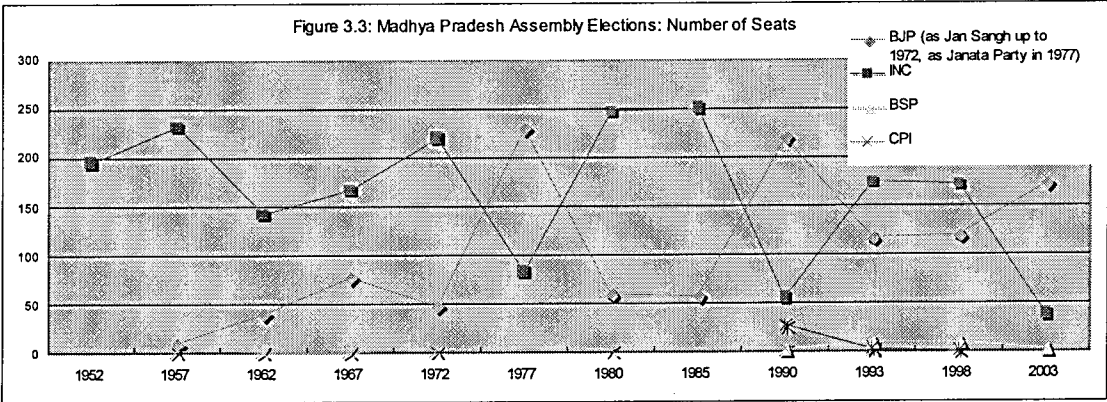
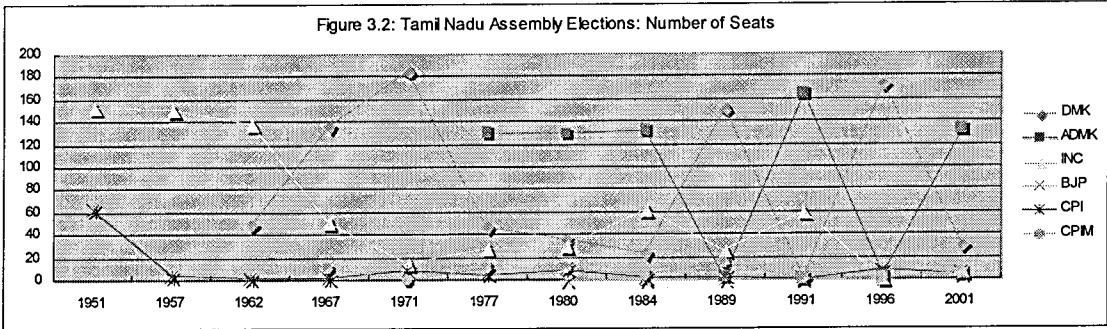
3.3.1 Tamil Nadu

Despite its initial advancement in terms of functions and resources of PRI, the development of the institutions after the enactment of the 1958 Act was somewhat stagnant. The weakness of the Tamil Nadu panchayat system was in elections or lack of them. Since the constitution of panchayats as per the 1958 Act, elections to PRI were held only three times in 1965, 1970 and in 1986 (ISS 2000: 275).³⁹ The terms of office of PRI representatives elected in the 1970 elections were extended up to 1977, when these bodies were further superseded by the State government until 1986. Finally after fifteen years, elections were held to PRI in 1986 but it was again superseded in 1991 upon completion of the terms of the office holders since 1986 elections. The next election had to wait until 1996 after two years since the new Tamil Nadu Panchayat Act, 1994 (henceforth 1994 Act) was enacted. During this period for more than three and a half decades, the panchayat act was not revised except for minor amendments, which is in contrast to the vibrant debate and the several Acts passed in the immediate post independence period. This is also in contrast to the case of Madhya Pradesh where panchayat acts were revised twice in 1981 and 1990 after the first uniform Panchayat Act of 1962.

In order to understand the background of this dismal record of decentralisation in Tamil Nadu, it is necessary to appreciate the peculiarity of the political environment in the State. Tamil politics has demonstrated distinct characteristics from others mainly for the following three reasons. First, it has a history of vibrant political mobilisation through Dravidian movement combining anti-Brahman, anti-Hindi and anti-North

³⁹ Information with regard to panchayat elections of Tamil Nadu in this paragraph is dependent on M. Aram in ISS (2000).

sentiment. Second, the Tamil politics has always been colourful with a variety of arresting charismatic personalities in the political leadership, such as the celebrated film star, Marudur Gopala Ramachandran, popularly known as MGR of AIADMK.⁴⁰ Finally, the political environment of the State has been highly polarised especially since 1977 with the two major regional Dravidian parties, namely Dravida Munnetra Kazhagam (DMK) and All India Anna DMK (AIADMK) contesting against each other. Especially since 1984, the Tamil electorate has demonstrated extreme tendency of anti-incumbency which no other State has ever recorded (Figure 3.2). All these factors of the Tamil politics make a clear distinction from any other State in India.



⁴⁰ MGR of AIADMK was a founder of the party and a Chief Minister of Tamil Nadu for more than a decade between 1977 and 1987. Following his death in 1987, the rivalry between his widow, also a film actress and Jayalalithaa, his former co-star in many of his films ended with the latter's victory. Jayalalithaa has also held the office of Chief Minister for more than a decade until recently defeated in the 2006 State Assembly Election. The close association between film industries and politics in the State has often been pointed out. See footnote 42.

As regards decentralisation, Tamil Nadu has, in fact, been the staunchest advocate of the decentralisation from the Centre to the States always reacting strongly against centralised tendency of the Union government since as early as the 1960s. This anti-Centre discourse has in return helped Dravidian parties to present itself as the agent of the Dravidian identity. However, when it comes to decentralisation below the State level, both Dravidian parties tended to be reluctant to promote it. Despite its historical development of local bodies, neither AIADMK nor DMK had strong motivation for devolution of powers to the lower level of government.⁴¹ James Manor argues that part of the reason is attributed to the extremely intense competition between the two parties as mentioned above and the well developed service delivery system through the party structure (Manor 1999b; See Figure 3.2). DMK and AIADMK have been in power literally in turn since 1984 Assembly elections and the level of extreme anti-incumbency can be clearly recognised if compared with the case of Madhya Pradesh (Figure 3.3), which has also seen emerging trend of two-party competition recently. Yet the anti-incumbency wave witnessed in Madhya Pradesh is not as intense as in the case of Tamil Nadu where the loser tends to lose almost entire seats except for the case of 2001 elections. DMK is notable with its well-established organisational structure which has long ensured the service delivery to the countryside along the party line when they are in power. AIADMK, on the other hand, has relatively less organised structure as a political party but highly disciplined workers who devote themselves for the charismatic leaders (Manor 1999b).⁴² Thus, both parties had established highly

⁴¹ Following analysis in this paragraph partially depends on the hypothetical comparative study of Indian State by James Manor (1999b).

⁴² In fact, it is widely acknowledged that the well-known MGR fan club spread all over the State plays a crucial role in mobilising supports for AIADMK especially during the elections. One panchayat president interviewed in February 2005 proudly told the author that he was a staunch supporter of '*Amma* ['mother' in Tamil language]' popular nickname of Jayalalithaa and belonged not only to the local party organisation of AIADMK but also to the MGR fan club. For details about the functions of this MGR fan club, see Dickey (1993). The political resources of the Tamil film stars' fan clubs are highly appreciated by DMK also in the first panchayat elections. *Frontline* reports the movement of the film star Rajnikant who had 'openly pledged his support' to the DMK-TMC alliance during the Assembly elections in 1996; 'this time the DMK-led alliance does not have the explicit support of film actor

disciplined system of distributing resources at the local level. For instance, several officers who had served as a District Collector in districts of Tamil Nadu admitted that they had to be extremely cautious when local politicians visited their room and quickly distinguish⁴³ whether the politician was from the ruling party or from the opposition.⁴⁴ The local politicians from the ruling party were influential over their transfers using their connection through the party line. Several district level State officials (non-IAS) claimed that giving any apparent favour to someone from the opposition would soon be reported to the upper level of the party organisation or elected representatives and some actions such as the transfer to an unfavourable position would be taken against such officials. One such official even asserts 'any official who's been in the same post for more than three years has to have "good relations" with the local politicians from the ruling party, otherwise, you just keep on being transferred'. He added that not many officials can afford staying in the same position too long.⁴⁵ Due to exceptionally severe competition between the two parties, they have developed tightly knit party organisations down to the village level. In such an environment, neither of them is willing to give up their powers to the democratically elected representatives in PRI.

Following the 73rd Constitutional Amendment in 1992, the AIADMK-led State government faced the necessity to enact the new Panchayat Act. Although it initially showed reluctance in ratifying it, the AIADMK government finally enacted Panchayat Act in December 1994 (ISS 2000). The elections to PRI, however, were again delayed with one pretext or the other⁴⁶ until 1996. During the two years of inaction after the

Rajnikant who commands a big fan following... Though Rajnikant had said that the alliance should continue for the local body elections too, he has asked his cadres not to contest the elections' (October 18, 1996).

⁴³ It is normally possible to distinguish the party affiliation of a politician as local political leaders usually wear dhotis or wrapped skirt with thin lines at the edge in either black and red (colours of DMK's party flag) or black, white and red (AIADMK) to show their party affiliation.

⁴⁴ Interview with an IAS officer on condition of anonymity, February 8, 2004, Tamil Nadu

⁴⁵ Interview with AD(P) on condition of anonymity, December 30, 2003, Tamil Nadu

⁴⁶ Local newspaper listed the various reasons provided by the State government to postpone the panchayat elections as many as 18 times between 1973 and 1995. These include 'No electricity to print electoral rolls (1973-74)', 'water

enactment of the Panchayat Act, Prime Minister Narasimha Rao warned that the central government might take legal action against the States where panchayat elections were not yet held⁴⁷. Finally ten years since the previous elections, panchayat elections were conducted in October 1996 amid euphoria after the DMK came back to power with an overwhelming victory in the State Assembly Elections in May 1996. As expected, in the panchayat elections in 1996, the DMK and its ally Tamil Maanila Congress gained more than 50% of the seats contested on the political party base, enough to claim majority in most of the bodies. Five years later in 2001, the AIADMK retaliated by holding the second panchayat elections under the new Act exactly five months after the party's victory in the Assembly Election and AIADMK equally swept the local bodies in the State. By holding panchayat elections right after the State Assembly Elections, the political leadership in Tamil Nadu made the most of its political resources it gained in the latter for consolidating its power in the former.⁴⁸

In accordance with the 73rd Constitutional Amendment, the Tamil Nadu Panchayat Act, 1994 (henceforth the 1994 Act) replaced the 1958 Act. The provisions of the 1994 Act, however, do not significantly advance those of the 1958 Act. The functions of village panchayat are almost the same as provided in the 1958 Act and no additional functions were assigned with regard to the enhanced role of panchayat specified in the Eleventh Schedule of the Constitution (Appendix 5). The continuity of the old system is evident from the position of the District Collector vis-à-vis PRI. The office of Inspector

scarcity (1976)', 'Lok Sabha elections (1980)', 'Cauvery [dispute over sharing river water resource with the neighbouring State] issue (1993)', 'Nagarpalika [urban local bodies] Bill (1994)' and 'Revised final electoral roll (1995)'. *Indian Express (Madras)*, 11 November, 1994, cited in *Panchayati Raj Update*, November 1994

⁴⁷ Earlier, the National Committee of Panchayat Ministers which met in New Delhi in October 1994 had recommended that the funds for various rural development schemes be suspended to the laggard States ('Panchayati Blues', *Frontline*, December 16, 1994)

⁴⁸ The current election manifesto indicates that decentralisation strategy of both parties does not go beyond the sphere of harsh competition between the two parties. For instance, the election manifesto of AIADMK for 2001 Assembly elections states that: 'Administration in all Local Bodies is badly affected due to undue interference by Karunanidhi's (DMK leader) henchmen. The Local Bodies under the control of DMK men at village, town and city levels are ridden with several malpractice and 'Scientific' corruption.' AIADMK suggests another Constitutional Amendment and revival of 'two tier' panchayat system rather than 'three tier panchayats' stipulated in the 73rd Constitutional Amendment.

remains in the 1994 Act which allows the Collector to supervise and inspect the three tier of PRI⁴⁹ as was initially stipulated in the 1930's. The District Collector also exercises the direct control over the District Rural Development Agency (DRDA)⁵⁰ till now despite the recommendation of the Government of India in 1995 to reorganise the institution in accordance with PRI reforms. The fact also signifies that the major resources of rural development that channels through DRDA is in the hands of the State administration but not under direct control of PRI. Perhaps the most significant change from the 1958 Act is the provisions with regard to the Gram Sabha, which had never formally been constituted in Tamil Nadu. Gram Sabha will be constituted in every panchayat consisting of all the electorate within the panchayat. The Gram Sabha will meet at least twice a year to approve village plans, budget for the year and audit report and review the progress of the implementation of schemes (Section 3).

With regard to the financial devolution, the first State Finance Commission was appointed in April 1994 and submitted its report in November 1996. As for the assigned revenue of panchayats, that is, taxes levied, collected and shared by the State government for panchayats are entertainment tax, local cess, surcharge on stamp duty and taxes on mines and minerals. On an average, it was recommended that Rs.422.6 million should go as assigned revenues per annum for the PRI. Devolution from the tax revenue of the State was recommended to amount to 8% during 1997-98, which was to increase to 12% during 2001-02 (GOI 2001b). As for the incentives to panchayats' resource mobilisation, the State government retained the system of the house tax matching grant. It was originally given the statutory status in the Act of 1994 but later deleted from the Act and stipulated by the Government Order in 2001 with increased

⁴⁹ *Tamil Nadu Panchayats Act, 1994: 200 (1) (a) and (c).*

⁵⁰ DRDA is an agency of the central government set up in the 1980s to integrate all the rural development schemes of the central government in the district. The officials working in DRDA are officials of the State government. The District Collector used to be the head of DRDA and had the power of supervision, which is changing in many States including in Madhya Pradesh, Karnataka and Orissa, so that they can be accountable to PRI.

incentive mechanism (Subrahmanyam 2004).⁵¹ Overall, the financial arrangement between the State government and PRI has not been significantly changed since the immediate post independence era. It is rather within the sphere of fiscal management that panchayats under the 1994 Act gained more autonomy and more independence from district administration for day to day management of the accounts including financial disbursement. On the other hand, such autonomy did not come for free. One panchayat secretary who has been serving since the mid-1980s admits that it is only since around 1996 that the State government strengthened the inspection activities over the panchayat's financial management.⁵² The post of Assistant Director (Panchayat, AD(P)) was newly created to manage the administrative and financial aspects of the village panchayats. One officer at the position of AD(P) claimed that 'the more powers were devolved to the panchayats, the busier my job becomes' while showing a pile of reports on his desk that he had to deal with in a day.⁵³ The meticulous arrangement for the monthly fiscal report which will be examined in detail in the next chapter has been developed primarily since after the new panchayat Act of 1994.

3.3.2 Madhya Pradesh.

Contrary to the case of Tamil politics, the decentralisation reform in Madhya Pradesh has been recognised by the State leadership as a measure to enhance and cultivate the mass support in the countryside. One reason behind this lies perhaps in the relatively weak party organisation of both the Congress and the BJP in rural areas

⁵¹ Under the new Government Order, the rate of matching grant varies depending on the collection ratio. If the collections from the house tax are 100%, the State government offers Rs.3 as matching grant for every one rupee of house tax collected. If the collections of the tax are between 81% to 99%, the rate of the grant offered is Rs. 2 for every one rupee of house tax collected. Similarly for collection upto 80% the rate is one rupee for every rupee of house tax collected. As Subrahmanyam points out, it should be noted that this collection ratio is counted as against demands provided by each panchayat. It is therefore possible to demand low and achieve 100% collection easily (Subrahmanyam 2004). It is probably for this reason that the State government calls for revision of the tax base.

⁵² Interview with a panchayat secretary on condition of anonymity, February 16, 2005, Coimbatore district, Tamil Nadu

⁵³ Interview with an AD(P) on condition of anonymity, December 30, 2003, Tamil Nadu

(Jaffrelot 1998). As shall be discussed in detail, the decentralisation reform in Madhya Pradesh in the post 73rd Constitutional Amendment made the State and its initiator and ex-Chief Minister Digvijay Singh (1993-2003) renowned throughout the country as well as in the international policy arena. Due to the uniqueness of Digvijay Singh's policy, the initiation of the reform has often been attributed to the personal inclination of Digvijay Singh towards decentralisation. But the brief history of PRI in the State suggests an alternative motivation of the political parties in the State.

As can be seen from Figure 3.3, with the emergence of the Bharatiya Janata Party (BJP), Madhya Pradesh has entered the era of two-party system evidently since 1990.⁵⁴ The competition between the two parties took a different form from that of Tamil Nadu. This can be exemplified in the two Panchayat Acts passed in 1981 and in 1990 replacing the 1962 Act, which was contrary to the Tamil Nadu Panchayat Act of 1958 that was replaced only in 1994. While the 1981 Act⁵⁵ was ratified by the Congress government, the 1990 Act was passed under the brief rule of the BJP government. The 1990 Act enhanced the reservation of 10% in the district panchayat chairman for SCs and STs with at least one each for women (Buch 2000: 170). In addition, the 1990 Act, for the first time in Madhya Pradesh, provided for holding panchayat elections on party lines⁵⁶ (*Ibid*: 171). The elections for all three tier of PRI were held for the first time in 1983-84⁵⁷ and in 1990 the BJP government attempted to hold elections to all three tier

⁵⁴ The victory of 1977 elections owes much to the organisational success of anti-Indira Gandhi movement led by Jayaprakash Narayan. Jan Sangh, erstwhile BJP, was part of the opposition alliance, Janata Party which successfully defeated the Congress under Indira Gandhi in 1977. Due to the severe factionalism, however, the alliance collapsed in 1980 when the following fresh election to the Lok Sabha brought the Congress back to power. BJP had to wait for another decade to come back as a major counterbalance to the Congress party. It was echoed in the political situation in Madhya Pradesh where the BJP lost two consecutive elections in 1980 and in 1985.

⁵⁵ The Madhya Pradesh Panchayat Act, 1981 succeeded the reservation policy of the 1962 Act.

⁵⁶ The 1993 Act allows the involvement of political parties only at the district level but not at the village and block level, while in reality, most political parties are actively involved in block panchayat elections and to a lesser extent, in the village panchayat elections. The Ashok Mehta Committee set up in 1977 by the Janata government recommended the involvement of political parties as discussed in Chapter 1.

⁵⁷ Panchayat elections were held in 1965, 1970, 1978, 1983-84 and 1990, out of which only elections 1983-84 were held for all three tier panchayats while the elections in the rest of the years were only for the village level. The block level elections were held for the first time in 1972 and in 1983-84 and those for district panchayats were held for the

of PRI but due to litigation, only about 30% of village panchayat elections was completed (*Ibid*: 169). Although failed, the BJP in a sense took advantage of the PRI reforms to counter the dominance of the Congress party by holding elections on the political party basis and by enhancing the seat reservation to SC and ST. Encroaching on the traditional support base of the Congress, namely SC and ST, the BJP attempted to nurture its party organisation in the countryside, which is often indicated as the weakness of the party (Jaffrelot 1998). Essentially supported by urban middle class, the BJP in rural Madhya Pradesh is largely dependent on the organisational network of the Rashtriya Swayansewak Sangh (RSS), the Hindu religious self-help organisation and the BJP's organisational ally.⁵⁸ It is fully plausible that the BJP leadership saw in PRI a chance to build and enhance the patronage network throughout the countryside to counter the supremacy of the Congress party. On the other hand, the activities of these panchayat institutions in reality were restricted chiefly to minimal administrative functions and they had little developmental responsibilities. The PRI remained largely ineffective under the control of government-appointed administrators (Behar and Kumar 2002: 10).

It was not only the latecomer BJP that attempted to take advantage of PRI reform but also the Congress party especially in the 1990's had strong motivation to resort to the radical decentralisation reforms. Being one of the strongholds of the Congress, Madhya Pradesh is the only State in the country that the non-Congress government has never completed the five-year term and the Congress has been in power except for a sum of eight years since Independence. Naturally, the tension between the Centre and

first time in 1983-84 (Buch 2000: 171).

⁵⁸ Asked about the relationship with RSS, a prominent State leader of BJP clearly answered 'we support the party', apparently identifying himself as an RSS worker rather than the BJP leader. (Interview with Kailash Joshi of BJP, March 8, 2005, Bhopal, Madhya Pradesh). This is in sharp contrast to the statements made at the national level in which most BJP leaders try to make an impression that they are independent from the influence of RSS while they apparently consult with RSS leaders for major policy decisions not to mention for organisational support during elections. BJP party workers in Ujjain also admitted that most of the BJP politicians at the block level belonged to the RSS (Interview with block level BJP workers, March 10, 2005, Badnagar, Ujjain, Madhya Pradesh).

the State has been less than what can be observed in other States including in Tamil Nadu. On the other hand, the Congress party organisation in the State has not been free from the factionalism which has undermined the party elsewhere. The strife factionalism within the State has always forced the State leadership to depend on the central party leadership for confirmation of its authority and in return, central leadership could from time to time intervene in the rivalry in the State to prevent regional leaders from threatening the central leadership. For instance, there was an incidence in Ujjain district of Madhya Pradesh that illustrates the intervention by the central leadership of the Congress party. Prior to the 2003 State legislative assembly elections, there was a severe competition for candidacy between pro- and anti-Chief Minister groups. In order to counter the Chief Minister, the anti-Chief Minister group sought for recognition from the central leadership, as a result of which the Chief Minister had to convince his followers in Ujjain to give up the MLA candidacy in Ujjain.⁵⁹ This incidence explains not only the severe factionalism but also a weak party organisation and low level of discipline among workers even at the district level. The Chief Minister suspect the eventual electoral loss in Ujjain was resulted from betrayal votes⁶⁰ by his own followers who were deeply discontent with the decision made by the central leadership.⁶¹ In a sense, the State leadership has constantly been destabilised and threatened by the central leadership of the party. This has undermined the strength of the party in the State in the long run.

The new Madhya Pradesh Panchayat Act, 1993, in fact, appeared in the middle of the upheaval after the State Legislative Assembly elections in 1993, in which the Congress party narrowly regained power after a gap of three and a half years of BJP's

⁵⁹ Interview with the district level Congress leader, March 11, 2005, Ujjain, Madhya Pradesh.

⁶⁰ It was suggested that these followers of Chief Minister voted against the party's candidate for the opposition BJP candidate, who eventually gained the seat.

⁶¹ Interview with Digvijay Singh, March 8, 2005, Bhopal, Madhya Pradesh.

rule.⁶² In December 1993, following the electoral victory, Digvijay Singh, the then State Congress Committee president was selected as a Chief Minister, which was against expectation of many.⁶³ Due to the severe factionalism prevailed in the Congress party, the new Chief Minister was surrounded by many powerful rivals from different parts of the State and had to play a careful balancing act between these State leaders and the central party leadership in addition to the opposition BJP. In such an environment, Digvijay Singh had several reasons to carry out panchayat elections as soon as possible.

First, by making Madhya Pradesh the first State to conduct elections under the new Panchayat Act, Digvijay Singh wanted to claim for his sincerity in this reform and make an impact on the Congress president Narasimha Rao, whose government at the Centre passed the Constitutional Amendment in 1992.⁶⁴ Second, following the electoral success in the Assembly Election, the Congress party also wanted to further enhance its support base by offering 14% seat reservation for Other Backward Castes (OBCs). The reservation for OBCs, which later was raised to 25%, was provided not only for all levels of PRI⁶⁵ but also for government jobs and public sector undertakings and it was the point stressed by the Congress party during the Assembly Election in 1993 (Jaffrelot 1998). This was, in fact, the first time that the Madhya Pradesh government explicitly

⁶² In 1993 Legislative Assembly elections, although the Congress party gained 174 seats as against 117 of BJP, the percentage of votes it gained was mere 40.7 as against BJP's 38.8.

⁶³ Although he had been the president of the State Congress Committee, Digvijay Singh was not necessarily the strong candidate and the chances for him were considered to be 'dim'. The complex mixture of the fallout between the then Union Education Minister Arjun Singh and Narasimha Rao, the then Prime Minister and the following decline of the former's influence in the State politics had led to the selection of Digvijay Singh, who in the end fished in troubled waters. Interestingly, there was a speculation even after a while since the decision whether or not Arjun Singh, Digvijay Singh's political mentor, gave him clear consent to become a candidate for the Chief Ministership (December 31, 1993, *India Today*).

⁶⁴ It was, however, not a natural course of the matter for any Congress State governments to do so. At the time, Congress governments in Karnataka and Kerala had been defying to hold panchayat elections. In both States, the defiance seems to be linked to the fact that PRI in these States had initially been activated by the non-Congress government and the Congress government was concerned that holding elections might unnecessarily benefit the oppositions ('Delayed democracy: Panchayat polls put off in Karnataka', *Frontline*, June 17, 1994).

⁶⁵ Section 13 (4) (ii), 17 (2) (ii), 23 (3) (ii), 25 (2) (ii), 30 (3) (ii) and 32 (2) (ii) of the Madhya Pradesh Panchayat Act, 1993, provide that in case population of SC and ST is less than 50%, 25% reservation will be given for OBCs for the seats of all the level of PRI.

took a step for accommodating OBCs.⁶⁶ Third, being surrounded by so many rivals, creating direct link with the local elected representatives most of whom are expected to be pro-Congress was considered as huge backing to strengthen his position as a Chief Minister. Upon completion of the panchayat elections, Chief Minister Digvijay Singh took 85 newly elected chairpersons and vice-chairpersons of 44 district panchayats along with him to New Delhi and called on Prime Minister Narasimha Rao as well as the President of India.⁶⁷ It was a moment that the new Chief Minister demonstrated his image as a strong advocate of 'panchayati raj' by presenting the first elected representatives of the new panchayat system in front of the Prime Minister.⁶⁸

The provisions of the 1993 Act are summarised in Table 3.5. The major difference from those of Tamil Nadu is the position of DRDA which was brought under the control of the district panchayat. The post of Project Officer, managerial top of the DRDA was renamed as Chief Executive Officer, Zila Panchayat (CEO(ZP)).⁶⁹ Similarly, Block Development Officer is now called CEO (Janpad Panchayat, JP) so that departmental line of rural development will be integrated into the structure of PRI. The position of Gram Sabha also significantly differs from that of Tamil Nadu. Gram

⁶⁶ Reservation for OBC became a controversial issue since after the Mandal Commission Report submitted in 1980. In Madhya Pradesh, the then Congress Chief Minister Arjun Singh formed the Mahajan Committee to enquire about the issue in 1981. Although the Committee submitted its report in 1983, Arjun Singh government only partially implemented the recommendation. On the other hand, Jaffrelot argues that in 1993 Assembly Elections, Congress focused more in this section and gained votes from OBCs, which might have convinced the new Chief Minister to further enhance political accommodation to OBCs (Jaffrelot 1998: 45).

⁶⁷ *Panchayati Raj Update*, August, 1994

⁶⁸ However, it took a while and so much effort for the Chief Minister to finally materialise this meeting. He initially planned to invite the Prime Minister on the 5th of July, which Narasimha Rao agreed but cancelled the day before due to his 'ill health'. It was a blow to the Chief Minister as the State government had widely publicised on this event, had planned live telecast of the ceremony and more than hundred and thousand of elected panchayat representatives had already arrived in Bhopal. Not many people was convinced with the Prime Minister's excuse and it was speculated that Digvijay Singh was forced to pay the price of being too close to Arjun Singh, the Prime Minister's growing rival. It was still hoped that the Prime Minister visited the State capital by August 20, the birth anniversary of Rajiv Gandhi and the day which Digvijay Singh had declared as a deadline for the inauguration of the new panchayats (*Frontline*, July 29, 1994). Yet seeing it difficult to happen, the determined Chief Minister led the delegation to New Delhi.

⁶⁹ Although it is only nominal that DRDA in Madhya Pradesh is under the control of Zila (District) Panchayat, Zila Yojna Samiti (District Planning Committee) has collective controlling power over the matters of PRI. District Collector has to share his responsibility with the members of Zila Yojna Samiti, and hence cannot enjoy dominant position within a district as he/she used to do in the past.

Table 3.6: Summary of panchayat legislations in the post 73rd Constitutional Amendment

	Tamil Nadu	Madhya Pradesh	
		Gram Panchayat	Gram Sabha
Name	Tamil Nadu Panchayat Act, 1994	Madhya Pradesh Panchayat Raj Adhiniyam, 1993	Madhya Pradesh Act 3 of 2001 (Amendment)
Structure	Three tier panchayat; Village Panchayat, Panchayat Union Council and District Panchayat. Grama Sabha will be constituted for every village.	Three tier panchayat; Gram Panchayats, Janpad Panchayats, Zila Panchayats. Gram Sabha will be constituted for every village.	
Size of VP	A village panchayat covers a population not less than 500.	A village panchayat will be constituted for every village. Governor is to specify a village or a group of villages to be a village for the purpose of this Act by public notification.	
New addition	Gram Sabha was first established in Tamil Nadu in this Act.	Inclusion of reservations for women and OBCs, provision for gram sabhas and control of zilla panchayats over the DRDA and of janpad panchayats over the block.	
Gram Sabha	Four mandatory meetings	After several amendments, the number of mandatory meetings is now provided four.	
Elections	Direct elections to all the posts of PRI except for the chairman of Panchayat Union Council and District Panchayat which will be selected from among their members indirectly. Reservation for SC/ST/women.	Direct elections to all the posts of PRI except for the chairman of Janpad Panchayat and Zilla Panchayat which will be selected from among their members indirectly. Reservation for SC/ST/OBC/women.	

Obligatory functions	Construction, repair and maintenance of all village roads, and of all bridges, culverts, road-dams and causeways on such roads; the lighting of public roads and public places in built-up areas; the construction of drains and the disposal of drainage water and sullage; the cleansing of streets, the removal of rubbish heaps, jungle growth and prickly-pear, the filling in of disused wells, insanitary ponds, pools, ditches, pits or hollows, and other improvements of the sanitary conditions of the village; the provision of public latrines and arrangements to cleanse latrines whether public or private; the opening and maintenance of burial and burning grounds; and the sinking and repairing of wells, the excavation, repair and maintenance of ponds or tanks and the construction and maintenance of water-works for the supply of water for drinking, washing and bathing purposes.(Section 110)	Establishment, management and regulation of markets and melas (fairs) other than public markets and public melas.	(a) to lay down the principles for identification of schemes and their priority for economic development of the village; (b) to approve all plans including Annual Plans, programmes and projects for social and economic development before such plans, programmes and projects are taken up for implementation by the Gram Panchayat; (c) to consider the Annual Budget of the Gram Panchayat, and make recommendations thereon; (d) to consider the report of audit and accounts of the Gram Panchayat; (e) to ascertain and certify the proper utilization by the Gram Panchayat of the funds for plans, programmes and projects referred to in clause (b); (f) to identify and select persons as beneficiaries under the poverty alleviation and other programmes; (g) to ensure proper utilization and disbursement of funds as assets to the beneficiaries; (h) to mobilize people for community welfare programmes; (i) to ensure active participation of people in implementation, maintenance and equitable distribution of benefits of development schemes in the village; (j) to promote general awareness amongst the people; and (j-i) to exercise control over institutions and functionaries in social sectors transferred to or appointed by Gram Panchayat; (j-ii) to manage natural resources including land, water, forests within the area of the village in accordance with provisions of law; (j-iii) to advise the Gram Panchayat in the regulation and use of minor water bodies; (j-iv) to control local plans, resources and expenditure for such plans; (k) sanitation, conservancy and prevention and abatement of nuisance; (l) construction repair and maintenance of public wells, ponds and tanks and supply of water for domestic use; (m) construction and maintenance of sources of water for bathing and washing and supply of water for domestic animals; (n) construction and maintenance of village roads, culverts, bridges, bunds and other works and building of public utility structures; (o) construction, maintenance and clearing of public streets, latrines, drains, tanks wells and other public places; (p) filling in of disused wells, insanitary ponds, pools ditches and pits and conversion of step wells into sanitary wells; (q) lighting of village streets and other public places; (r) removing of obstructions and projections in public streets and places and sites not being private property or which are dangerous; (s) regulating and control over entertainment shows, shops, eating houses and vendors of drinks, sweet meats, fruits and other articles; (t) regulating the construction of house, latrines, urinals, drains and water closets; (u) management of public land and management, extension and development of village site; (v) (i) regulating places for disposal of dead bodies, carcasses and other offensive matters; (ii) disposal of unclaimed corpses and carcasses; (w) earmarking places for dumping refuse (x) regulation of sale and preservation of meat; (y) maintenance of Gram Sabha property (z) establishment and management of cattle ponds and maintenance of records relating to cattle; (aa) maintenance of ancient and historical monuments other than those declared by or under law made by Parliament; (bb) maintenance of records of births, deaths and marriages; (cc) rendering assistance in the census operation and in the surveys conducted by the State Government or Central Government; (dd) rendering assistance in prevention of contagious diseases;
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			(ee) rendering assistance in inoculation and vaccination and enforcement of other preventive measures for safety of human being and cattle prescribed by Government Department concerned; (ff) rendering assistance to the disabled and destitutes; (gg) promotion of youth welfare, family welfare and sports; (hh) establishment of Raksha Samit for; (a) safety of life and property; (b) prevention of fire and extinguishing fire and safety of property during outbreak of such fires; (ii) plantation and preservation of Village forest; (jj) removal of social evils like dowry; (kk) granting loans for the purposes of – (i) providing medical assistance to indigent persons in serious and emergency cases; (ii) disposal of dead body of an indigent person or any member of his family; or (iii) any other purpose for the benefit of an indigent person as may be notified by the State Government from time to time subject to such terms and conditions as may be prescribed; (ll) (i) carrying out the directions or orders given or issued by the State Government, the Collector or any other Officer authorized by the State Government in this behalf with respect to the measures for amelioration of the condition (ii) perform such functions as may be entrusted to it by Zilla Panchayat or Janpad Panchayat by general or special order (iii) to exercise and perform such powers and functions as the State Government may confer on or entrust to under the (iv) with prior approval of Janpad Panchayat may also perform other functions as it may desire to perform: Provided that where any such function is entrusted to the Gram Sabha, it shall act as an agent of the State Government (mm) plan and manage basic amenities; (nn) select beneficiaries under various programmes; (oo) implement, execute and supervise development schemes and construction work within the Gram Sabha area; (pp) control and monitor beneficiary oriented schemes and programmes; (qq) (rr) organise voluntary labour and contribution for community work and promote the concept of community ownership (ss) to plan, own and manage minor water bodies upto a specified water area situated within its territorial jurisdiction; (tt) to lease out any minor water body upto a specified area for the purpose of fishing and other commercial purposes (uu) to regulate the use of water of rivers, streams, minor water bodies for irrigation purposes; (vv) to exercise control over institutions and functionaries in all social sectors transferred to or appointed by the Gram
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Discretionary functions	Planting and preservation of trees; the lighting in areas other than built-up areas; opening and maintenance of public markets; the control of fairs and festivals; opening and maintenance of public landing places, halting places and cart-stands and of public cattlesheds; the opening and maintenance of public slaughter-houses; the opening and maintenance of reading rooms; the establishment and maintenance of wireless receiving sets, television sets, playgrounds, parks, sports clubs and centres of physical culture; the opening and maintenance of literacy centres and centres for imparting social education; and the construction of works of public utility and the provision of other facilities for the safety, health, comfort, convenience, culture or recreation of the inhabitants of the village or town (Section 111)	Prepare annual plans for economic development and social justice of panchayat area and submission of the plans to Janapad Panchayat; Ensure the execution of schemes, works, projects entrusted to it; consider the application for establishment of colonies falling within the Gram Panchayat area; exercise control over local plans resources and expenditure for such plans; co-ordinate, evaluate and monitor activities of committees constituted by Gram Sabha; re-allocate to Gram Sabha the funds made available by the Central government or State government, pertaining to functions assigned to Gram Sabha, works, schemes and projects as per the norms fixed by the central government or State government.	
Compulsory levy	House tax, advertisement tax, library cess, duty on transfers of property,	Market fees, fees on the registration of cattle sold in any market or any place under the jurisdiction of the panchayat	Property tax, tax on private latrines, light tax (if light arrangements have been made by Gram Sabha agency), profession tax (tax on person, exercising any profession or carrying on any trade or calling within the limits of Gram Sabha)
Optional levies	Market fees, fees for the temporary occupation of village sites, roads etc.. (The rest is almost the same with 1950 Act)	Tax on vehicles (bullock-carts, bicycles, rickshaws used for hire within panchayat area), water rate (where arrangements are made by the panchayat for regular supply of water), fees for drainage (where system of drainage has been introduced by the panchayat), fees payable by the owners of the vehicles other than motor vehicle when they enter the panchayat area.	Tax on building not covered by property tax, tax on animals used for riding, driving, drought or burden or on dogs or pigs payable by the owners, fees for the use of sarais, dharamshalas, rest houses, slaughter houses and encamping grounds, a water rate (same condition as panchayat), profession tax (tax on persons carrying on the profession of purchaser, agent, commission agent, weighman, or a measurer in the area of Gram Sabha excluding the area of a mandi (agricultural market), temporary tax for special works of public utility, tax for the construction or maintenance of public latrines and a general scavenging tax for removal of disposal of refuse, fees for bullock-cart stand and tonga stand, fees for temporary structure or any projection over any public place or temporary occupation, fees for grazing cattle.

Sabha is constituted in every village, signifying every panchayat has one or more Gram Sabhas within its jurisdiction. The function of Gram Sabha will be discussed in detail below.

The provisions for constitution of village panchayat are almost the same as those of Tamil Nadu. The panchayats are divided into a minimum of 10 wards, and if the population of the village exceeds 1,000, the number of wards can be increased but only upto 20. The reservation for OBC is one unique provision in Madhya Pradesh. A Gram Panchayat with 50% or less of seats reserved for both SCs and STs has 25% seats reserved for the Other Backward Classes (OBCs) on a rotational basis. Similarly, if the total population of SCs and STs in the block is less than 50%, then 25% of the Sarpanch seats are reserved for OBCs. If the president is not an SC or an ST, the vice-president is elected from this category (Behar and Kumar 2002: 12). A panchayat creates a panchayat fund, and all funds received by the panchayat are included in this fund. The fund is maintained by the panchayat secretary who is employed by the panchayat for honorarium of around Rs. 1,000 per month.

Following the recommendation of the first State Finance Commission which submitted its report in April 1995, the government declared to transfer Rs. 1,673 million in the year 1997-98 to the three tier PRI, which was 2.91% of the *total income* of the State of the preceding year, Rs.150 million more than the Commission recommended. In addition, the State government gives several kinds of grants in aid (see Table 3.6), but the major grant in aid is that from the Tenth Finance Commission (TFC) of the central government. As per the recommendations of the TFC, out of the total amount of grant to be received from the TFC, 50% or Rs.435.59 billion should be distributed in the form of a *general purpose grant* among village panchayats. This amount is to be distributed at the rate of Rs12.50 per person, on the basis of 1971 population, through the district panchayats (Behar and Kumar 2002: 28). (GOI 2001b: 90). On the other

Table 3.6: Summary of recommendation of the first SFC

	Tamil Nadu	Madhya Pradesh
Date of cons	23/4/1994	17/6/1994
Date of subm	26/11/1996	20/6/1996
Recommendation on Devolution	Entertainment tax, local cess and Seigniorage fees are payable to the PRIs from the State Government as assigned/shared revenue. On an average, it is recommended that Rs.42.26 crores should go as shared/assigned revenues per annum for the PRIs which basically comes from Surcharge on Stamp Duty, Local Cess, Entertainment tax and taxes on mines and minerals. Devolution from States tax revenue – 8% during 1997-98, which is to increase to 12% during 2001-02, 15% of the above to be set aside as reserve fund to meet post devolution conditions.	The limit of administrative expenditure on the collection of revenue would be limited to a maximum of 10% of the gross revenue. 2.91% of the total tax and non tax revenue of the State Government collected during the preceding year to be devolved or an amount equal 3.24% of net proceeds of the total revenue of the preceding year to be released.
Recommendation on Grants	Statutory grants as local cess surcharge matching grants and local road grants are recommended by the SFC for the PRIs. Several other nonstatutory grants are also recommended as grants for Maternity Centers and grant for maintenance of dispensaries.	A general purpose grant of Rs.146.5 million and Rs.15 million was recommended to be given to the District and Block Panchayats in 1995-96 with a 10% increase every year. For sponsored programmes the PRIs should be paid 2.5% of the total provision as 'agents grants', the amount of which should be adjusted within the budget of the concerned department. The State government has prescribed a certain amount of honorarium for officers and administrative personnel of the three-tier Panchayats. Hence, for the year 1995-96, Rs.677.6 million of committed expenditure was released in the form of 'establishment grant-in-aid'. The State Government should sanction one time non recurring grant for furnishing and mainlining offices of the PRIs. Incentive grants for the recovery of the fixed targets of revenue by the panchayats were also granted.
Recommendation on Own Taxes	The only source of own tax relevant to the Panchayat Union is the Local Cess Surcharge. The Village Panchayats levy the following taxes – House tax, Library Cess Water tax, Profession tax, Vehicle tax, Tax on Agricultural Land, Pilgrims tax. Village Panchayats' only source of non tax revenue is fees and fines.	The Gram Panchayats levied the following taxes – property tax, tax on latrines, Light tax, profession tax and the following non taxes – market fee and Fee for registration of cattle.

Source: GOI (2001b: 85-93)

hand, assigned taxes, that is, taxes levied and collected by the State government to transfer to panchayats are limited to the mining tax and cess on land revenue.

The second State Finance Commission recommended in 2003 transfer of Rs. 1,241.3 million, constituting 2.93% of *net tax revenue* of the state government (divisible pool) to be allocated to PRI (GOMP 2003: ii-iii). The Commission was of the opinion that grants-in-aid should not only assist PRI but also spur them in the direction of own resource mobilisation. The numerous grants in aid, therefore, were reduced to; *a general purpose grant* of Rs. 500 million to panchayats on the basis of number of compulsory and optional taxes levied; *establishment grant* of Rs. 284 million to PRI for the payment of honorarium and other payments to the staff working in the PRI; and *specific grant* of Rs. 0.5 million to the district panchayats for organising training programmes at the

district level for the elected representatives of PRI in their respective jurisdictions. On the other hand, assigned revenue was increased to Rs. 774.1 million including Rs. 482.1 million as net proceeds of land revenue, Rs. 222.8 million as surcharge on stamp duty and Rs. 69.2 million as cess on sales tax (GOMP 2003: iii-iv). In sum, comparing with Tamil Nadu, the fiscal devolution in Madhya Pradesh is characterised with a number of grants in aid rather than assigned taxes to panchayats as is the case in Tamil Nadu. This is also a trend succeeded from the 1960's.

These original provisions of the panchayat acts as well as the arrangement for the financial devolution are, however, not as radical as many would expect in a State known with its decentralisation reforms. In fact, the original Act was so hastily constituted so as to hold elections as early as possible that one observer pointed out that there were many lapses in it. It was, therefore, the amendments made to the original act that make decentralisation reforms of the State well-known. Out of a number of amendments, the most notable was the one enacted in January 2001, that is, the reforms for 'Gram Swaraj (village self-rule)'.

Gram Swaraj is, according to the concise summary of Behar (2003), 'a system of local self-governance at the village level, which moves from indirect to direct democracy'. The reform initiative was motivated primarily by an increased perception that the village panchayat president tended to direct most of the development funds to his village while paying no attention to other villages consisting the same village panchayat. The Chief Minister, Digvijay Singh is reported as complaining that he did not expect '*panchayati raj* (rule by panchayat)' to become '*sarpanch raj* (rule by president)'. Prior to the amendment in 2001, the State government formed a task force for the creation of Gram Swaraj. The task force also anticipated the confusion created by the numerous committees formed by the government departments in villages as briefed in Chapter 2. It was envisaged that eight committees created within Gram Sabha

should replace these departmental committees, which in many cases formed undemocratically by government officials.

Based on the premise that, in a village, people can assemble and sit collectively, and therefore representatives to represent the aspirations, needs and interests of the people are not required, the new system intends to give power to the people directly and not to their representatives. Gram Sabhas are empowered to exercise all the powers that gram panchayats had been entrusted and many more additional powers. Gram Sabhas will function as decision-making bodies and to discharge its duties and implement its decisions, it will constitute eight standing committees⁷⁰ comprising of stakeholders of the work assigned to the committees (Behar 2003). Each Gram Sabha is empowered to have its own fund called Gram Kosh, and the bank account so that they can receive government funds to that account directly.⁷¹ The management of Gram Kosh is entrusted to the panchayat secretary, who on top of the panchayat fund, is to maintain the accounts of all the Gram Kosh of the villages consisting the panchayat.

The reforms of Gram Swaraj attracted attention both within and without the country as ‘experiments with direct democracy (Manor 2001)’. Writing immediately after the introduction of the new system, Manor raised several potential advantages that this ‘remarkable experiment’ of direct democracy may bring about. They include, first, as the Chief Minister Digvijay Singh was convinced from evidences, the small developmental projects for which user committees had been selected by villagers themselves may produce better results than officially crafted ones. Second, by constituting the committee members mainly or entirely with beneficiaries of each

⁷⁰ Each committee is respectively in charge of village development, public assets, agriculture, health, village security, infrastructure, education and social justice. Each committee will be presided over by the president of the panchayat and elected members of the panchayat will be given a minority of seats on most committees.

⁷¹ In practice, the government funds will first be given to village panchayat and then automatically flow to Gram Sabhas. This is due to the central government directives which do not allow direct disbursement to the accounts of Gram Sabhas. See, for details, Behar and Kumar (2002)

project or service, it was expected that the level of vigilance by members would increase and hence, corruption would be prevented. Third and most related to this study is an issue of resource mobilisation in which these reforms for direct democracy may remove impediments to resource mobilisation which 'elected local councils all over the world' are afflicted with (*Ibid.*). Since no one is elected to the Gram Sabhas, no one needs to worry about not being re-elected because they have become unpopular by imposing taxes to his/her fellow villagers. This may, Manor argues, result in at least modest increases in resource mobilisation.

On the other hand of this drastic institutional changes for PRI, the local administration was somewhat left outside the picture. Since the Chief Minister Digvijay Singh felt that the resources of PRI had been manipulated by the local officials through regular inspection activities, he deliberately discouraged inspection activities against PRI by the local administration.⁷² As shall be discussed in detail in the next chapter, unlike the AD(P) in Tamil Nadu, the Deputy Director (Panchayat), the equivalent position in Madhya Pradesh does not have to compile or sort out many reports on a daily basis. Another official at the district level claims that 'decentralisation has taken up our jobs'. He asserts that most officials at the district and block level have felt some sense of loss of power, as a result of which they ended up in what he termed in jest 'the SOS syndrome'. 'SOS' stands for 'save our schemes', which he claims to indicate the sentiment of district level officers. In the course of 'radical decentralisation', many officers were sidelined despite their accumulated expertise and knowledge and felt threatened by the loss of commanding powers. 'You don't have to make great effort for implementation of the schemes, if you do, you'll be transferred. If you don't make any effort, you'll be punished. We are just hoping the schemes that we are dealing with

⁷² Interview with Digvijay Singh, February 20, 2004, Bhopal, Madhya Pradesh. He claimed that local officials used to take bribes under the name of 'commission' from the elected representatives of PRI at the occasion of annual audit or inspections of the government schemes.

would remain as they are'.⁷³

3.4 Summary

The historical development of PRI in the two States provides better understanding of the current system working in each State. The administrative set up in colonial rural India was characterized primarily by its land revenue system, which necessarily defined the administrative arrangement for revenue collection between the state apparatus and the local landed elites. The system in Tamil Nadu involved frequent interaction between the administration and village officials and the latter were later incorporated to the lowest rank of the former. While in Madhya Pradesh, the degree of incorporation of each village in the local administration was not as much as in Tamil Nadu, leaving much of the administrative domain of villages untouched.

This difference signifies both limitation and advantage for the later development of PRI in both States. The PRI in the immediate post-independence Tamil Nadu successfully institutionalised the village administration and demonstrated well-established system of financial devolution. Stable resource flow from the State exchequer to each panchayat in the form of assigned revenue as well as relatively successful tax collection by former village officials who had accumulated experience and expertise in land revenue collection helped panchayats to deliver basic services. On the other hand, local administration holds strong controlling powers over panchayats as exemplified by the post of Inspector assumed by the District Collector. The PRI system in post independence Madhya Pradesh was not as well established as in Tamil Nadu. The financial devolution in the immediate post-independence period was limited to the occasional grants from the State government and resource mobilisation efforts of panchayats faced difficulty. Although elections were held relatively regularly in

⁷³ Interview with an officer at the district level on condition of anonymity, February 14, 2004, Madhya Pradesh

Madhya Pradesh, actual role of panchayats did not go beyond minimal administrative functions.

The 73rd Constitutional Amendment in 1992 has significantly changed the comparative picture of PRI in the two States. Against the background of bitter competition between the two major political parties, the Tamil Nadu panchayat system was not so significantly advanced in the direction of democratic decentralisation. It succeeded many arrangements in the former system including the overwhelming controlling power of Inspector over PRI. Contrary, the reform initiatives for decentralisation in Madhya Pradesh in the 1990's marked a remarkable departure from the earlier system. As part of the attempts to gain mass support, the substantial statutory powers were devolved to the lowest level of the PRI, namely, Gram Sabha. The reform for direct democracy, deemed as a remedy to reduce corruption, has evoked high expectation of many. This is especially true since initial enthusiasm for PRI in the early 1990's has gradually been replaced by the discontent over the dominance of the panchayat presidents.

On the other hand, if we focus on the administrative capacity in the two States, it is apparent that the State of Tamil Nadu has exhibited its high ability in incorporating PRI into administrative machinery through inspection activities. In contrast with the novelty of its recent decentralisation reforms, Madhya Pradesh historically did not possess administrative capacity in dealing with PRI. Moreover, whatever capacity existed was further undermined by the policy changes occurred after the 73rd Constitutional Amendment. Unlike the local administration of Tamil Nadu which is increasingly burdened with the responsibility of inspecting and administering PRI, the local administration of Madhya Pradesh was discouraged to demonstrate whatever expertise and capacity it held in PRI administration. How these differences in administrative capacity affect or do not affect the functioning of panchayats can be examined through

the case study in the next chapter.

4 Data Analysis and Case Study

In this chapter, data obtained from each village panchayats of Madhya Pradesh and Tamil Nadu will be examined. The attempt will be to establish that the three factors together affect the level of house tax compliance for the panchayat. To reiterate, three factors are: a) administrative capacity of the State government, b) trustworthiness of the State government and c) trustworthiness of the panchayat. After discussing the respective administrative capacity of the two State governments, its relationship with the level of tax collection is first examined (Section 4.2). It is assumed that the condition of the different level of administrative capacity in the two States can be applied equally within each State. In order to examine the alternative hypotheses, the element of fiscal exchange is then tested by comparing the amount of developmental projects carried out by each panchayat and villagers' knowledge and perception about those projects (Section 4.3). Then examination of another alternative hypothesis follows, that is, the impact of the different level of socio-economic development on the level of tax compliance in each panchayat (Section 4.4). The following section examines the aspect of trustworthiness of the State government and the panchayats and explores the tripartite relationships among administrative capacity, trust and tax compliance (Section 4.5). As a result of examination with regards to three factors, twelve panchayats are categorised into four groups. The detailed case study follows to make better sense of each category and the specific focus is put on describing the cases of MP1 and TN1, both of which do not exactly fit into the hypothesis of this thesis. In order to deepen understanding on each case, the caste factor in each panchayat is incorporated in the analysis by comparing the numerical strength of each caste and the position of lower castes. This will help explain some of the mechanisms of how trust is generated or undermined and hence provide better understanding of the relationship amongst the three factors (a, b, c).

4.1 Administrative capacity

4.1.1 Tax administration at the panchayat level

The basic administrative system for house tax levy in both States is more or less similar. In both States, house tax has practically been provided as an obligatory tax in its respective post-Independence Panchayat Act. In the case of Madhya Pradesh, it is called 'property tax' which can include tax on lands (Schedule I-A (1)) but most presidents or secretaries call them '*bhavan kar* (house tax)' and the demands are in practice made based on rough estimation of the capital value of the house structure.¹ In the case of Tamil Nadu, it is called house tax and excludes tax on lands. In both States, administration of tax collection such as evaluating tax rate for each house, additional evaluation of newly built houses, revising the amount of demand each year and keeping demand book etc. is done by the panchayat secretary. The secretary assesses the structure of each house by observing appearance of the building mainly the size and the kind of roof (cf. thatched or tiled). In 2001, the government of Madhya Pradesh devolved the power to levy house tax from panchayat to Gram Sabha as a part of the larger reform called *Gram Swaraj* (village self-rule) as examined in Chapter 3. However, the entire process of house tax levy is practically undertaken by the panchayat secretary and apart from the secretary most villagers do not even notice the changes since 2001. This policy change therefore does not appear to have affected actual practice of tax administration very much.²

The minimum/maximum rate for house tax is provided in each State Act and related rules of the State government but is not strictly followed in either State³. In

¹ The major points of valuation are, according to several panchayat secretaries, kind of roof (thatched or tiled), kind of wall (brick or earthen) and number of rooms.

² Referring to the legislative changes of *Gram Swaraj*, James Manor (2001) argues that this further devolution of power to Gram Sabha might lead to 'at least modest increase in resource mobilisation', since it will release the issue of resource mobilisation from the hands of elected representatives of village panchayats, who are bound with election prospects. However, this estimation has not been verified so far since the tax administration has practically not seen any changes.

³ 'The Madhya Pradesh Gram Panchayat Obligatory Taxes and Fees (Conditions and Exceptions) Rules, 1996' (Rule 5) provides minimum/maximum rate for property tax depending on the capital value of the building while 'The Tamil Nadu Panchayats Act, 1994' (Section 172 (1)) provides only minimum rate depending on the classification of

Madhya Pradesh, minimum rate among six panchayats was Rs. 2 and the maximum Rs. 40 while in the case of Tamil Nadu, minimum was Rs. 2 and the maximum Rs. 450. In fact, Tamil Nadu panchayats are going through the revision of assessment from capital value base to plinth area base as provided in the State Act, which explains the much higher maximum rate in the State. Revision of assessment is not regularly carried out unless there is some pressure from the government as in the case of Tamil Nadu. Even in such cases, due to the amount of work required for revaluation, the norm is just to add up certain percentages to the previous levy but not to actually reassess the property again. In other words, such arrangement for increased tax collection requires administrative expertise and is time-consuming for secretaries who are reportedly already overburdened. This problem is often considered as one of the major impediments for increased own revenue of panchayat (PRIA 2000) ⁴. Individual payment of tax is basically done voluntarily by villagers who visit panchayat office from time to time within the fiscal year from April to March. Thus, overall, tax administration within panchayat itself does not significantly vary between the two States.

There is, however, a marked difference between the two States in efforts made to increase tax collection by the panchayat secretary and the president. In Madhya Pradesh, neither panchayat secretary nor panchayat president makes any effort in collection outside the panchayat office, while Tamil Nadu president and secretary would from time to time visit households which had not voluntarily paid to collect house tax. How has this difference in attitudes of panchayat administration emerged? In order to answer this question, it is necessary to understand the tax administration of panchayat within the larger context of the State administration and the latter's administrative capacity.

the house (concrete, tiled, thatched etc.) and the plinth area of the building.

⁴ In this sense, contracting out the collection or assessment might be one possible option. One economist pointed out in verbal interaction that there is a case in Bangladesh villages that the tax collection right is auctioned among the villagers and the highest bidder gets the right to collect tax, the amount of which was fixed by the local government. This is probably the legacy of colonial *zamindari* system for land revenue collection. Such arrangement can be seen in the case of market tax in small towns in Madhya Pradesh but not the case for house tax collection of panchayat either in Madhya Pradesh or in Tamil Nadu.

4.1.2 Administrative capacity of the State government

One of the significant characteristics in the process of tax collection in Tamil Nadu is active involvement of the State government to the financial management of the PRI. There are some considerable differences in the way the State administration functions vis-à-vis panchayats in the two States especially in terms of three points; a) incentive mechanism; b) compilation of data and; c) inspection and guidance.

First of all, the administrative set up in the two States with regard to PRI requires some explanation before examining in detail. In Madhya Pradesh, Department of Panchayati Raj and Social Justice is in charge of the affairs with regard to PRI. Efforts have been made to put local administration under the control of PRI and the post of BDO is renamed as Chief Executive Officer (Janapad Panchayat, CEO(JP)) as well as Project Officer, District Rural Development Agency (DRDA)⁵ renamed as CEO (Zila (District) Panchayat, CEO(ZP)). DRDA was formally done away with and put under the control of Zila (District) Panchayat. The bottom most officer in charge of panchayat at the block level is Panchayat and Social Education Organiser (PSEO), ex-officio Additional CEO (Janapad Panchayat, JP), who is supervised by the CEO (JP). At the district level, overall administrative issues with PRI are dealt with by Deputy Director Panchayat, ex-officio Additional CEO (ZP) and CEO(ZP) deals with rural development schemes which are implemented by the three tiers of PRI. The post of CEO (ZP) was formerly called Project Officer, DRDA and due to the dual role both administering PRI as well as implementing rural development schemes, he/she is obliged to report to both Director, Department of Panchayat Raj and Social Justice, and Director, Department of

⁵ DRDA is an agency of the central government set up in the 1980s to integrate all the rural development schemes of the central government in the district. The officials working in DRDA are officials of the State government. The District Collector used to be the head of DRDA and had the power of supervision. It is still so in Tamil Nadu, but this is changing in many States so that they can be accountable to PRIs.

Rural Development in Bhopal as well as to the District Collector in the district.

In Tamil Nadu, unlike Madhya Pradesh or other States such as Karnataka, Orissa and, the DRDA remains under the official control independent from PRI, and is supervised directly by the District Collector. Tamil Nadu Panchayat Act, 1994 also provides the District Collector to assume the role of 'Inspector' for all three levels of PRI, which allows him/her to enter the office of any village panchayat and inspect any records, registers and activities⁶. At the block level, officer in charge of panchayat is Extension Officer (Panchayat, EO(P)) who is supervised by BDO (Village Panchayat, BDO(VP)) and BDO (Block Panchayat, BDO(BP)). At the district level, Assistant Director (Panchayat, AD(P)) is in charge of the overall administrative issues of PRI while Project Officer DRDA is in charge of all the government schemes on rural development. Both of them are supervised by Director, Department of Rural Development. To summarise, the administrative set up in the two States is differentiated in three features; 1) the position of DRDA vis-à-vis PRI; 2) role of District Collector as an Inspector (Tamil Nadu); and 3) number of officials at the block level directly in charge of village panchayat, two (BDO(VP) and EO(P)) in Tamil Nadu and one (PSEO) in Madhya Pradesh.

a) Incentive mechanism

As briefly discussed in Chapter 3, one unique point of the State policy in Tamil Nadu with regard to improving house tax collection is in its system of 'House Tax Matching Grant'. This system is still part of the 1994 Act and it exists only in Tamil Nadu (Bava 1998). The House Tax Matching Grant is given to village panchayats at the rate of Rs. 1 for every one rupee of house tax collected, and is allocated as a grant-in-aid

⁶ *Tamil Nadu Panchayats Act, 1994: 200 (1) (a) and (c).*

(GOTN 2001?).⁷ The Second State Finance Commission of Tamil Nadu recognises the contribution of matching grants to the increased collection of house tax as well as tax rates, while projecting that the present rate of grant might not be sustainable in the long run (GOTN 2001a: 195)⁸. Despite such problem, it cannot be denied that the House Tax Matching Grant gives village panchayats a clear incentive to levy and collect house tax. On the other hand, however, this in itself is not sufficient to ensure that all the panchayat representatives make efforts in increasing collection. Several village panchayat presidents in Tamil Nadu told that they were not aware of the amount of the grant in the current fiscal year or whether they had yet received the House Tax Matching Grant. Also several secretaries agreed that the House Tax Matching Grant was not the direct motivation for them to increase tax collection as the timing of the grant disbursement tended to be irregular and it was difficult for them to expect how much they could receive in what month of the year. While this grant would certainly motivate panchayats to improve house tax collection, as long as the grant is not directed to the presidents or secretaries personally, they may not necessarily feel strong motivation to risk their popularity.

b) Compilation of data

There is a sharp contrast in the availability of data at the level lower than the district between the two States. In Tamil Nadu, there is a sheer abundance of data on any kind of activities of panchayats above the block level. While there is sometimes minor inconsistency in each block in the kinds of data available in the form of computerised tables, data materials certainly exist in all the blocks. This abundance of data is mainly due to the requirements from the upper level of administration. For

⁷ The ratio of house tax matching grant was recently revised and reduced.

⁸ Moreover, some scholars point out that it is questionable as far as equity is concerned, because the amount of house tax collection reflects not only the panchayat's tax effort but also the income disparity among panchayats.

example, panchayat secretaries have to fill in a form called 'Form No. 30' (Appendix 6) and submit to the EO(P) at the end of every month, on the basis of which the financial status of panchayat is reviewed at the fourth weekly meeting of all the panchayat secretaries, EO(P), BDO(VP) and BDO(JP) every month.⁹ Form No. 30 submitted from all the panchayats is compiled and tabled at each block level and submitted to the AD(P) at the district level. Before the monthly meeting with the Director, Rural Development Department in Chennai, AD(P) in each district gathers data from the block level and tables into more than 30 different formats¹⁰ to submit to the Directorate (Appendix 7). These data includes the status of various tax collection of panchayats, allocation status of various grants and assigned tax devolved from the State or district revenue administration, the number of malpractice cases at panchayats and the progress report of some of the 29 items provided in the Eleventh Schedule of the Constitution as the functions of panchayats, such as drinking water supply and maintenance of panchayat's assets including streetlights. While these are all related to the General Account and the Earmark Account, as for the Scheme Account,¹¹ other section of DRDA creates similar progress reports on each centrally sponsored schemes (CSS) such as IAY and SGRY to submit to the Directorate every month. In this manner, it is possible for the Secretariat in Chennai to know how much more house tax was collected at the village level in a month or how much work has been completed in a particular government scheme.

of panchayats. While it is also possible for the Director of Panchayati Raj and Social

⁹ In other weekly meetings, other issues such as the progress of various government schemes, some notifications from the government etc are dealt with.

¹⁰ The forms submitted monthly to the Director, Rural Development Department in Chennai is altogether 46, including 12 forms for Block Panchayat and District Panchayat.

¹¹ There are four different accounts in every village panchayat which are maintained in different account books in the same manner in every panchayat. Four accounts are namely, General Account (can be used for general purposes including revenues from tax collections and assigned revenue), Earmark Account (central Finance Commission grants), Scheme Account (accounts for various government schemes such as IAY, SGRY) and Water Service Account (accounts for user charges only where tab connection is provided).

Justice in Bhopal, the State capital, to know the monthly progress of CSS, the rest is literally in the dark. The data available at the block or district level with regard to the activities of panchayats is restricted to those on the centrally sponsored schemes, which had traditionally been dealt with by DRDA, now incorporated into Zila (District) Panchayat. Data with regard to tax collection of panchayat is not available *at any level* except for the panchayat itself, if it collects any. Nor is the data available on the status of other funds devolved from the district or State level or the status of maintenance activities of panchayat. Director of Panchayati Raj and Social Justice in Bhopal holds monthly meeting with the CEO (ZP) from all the districts as its counterpart does in Tamil Nadu, but the material for the meeting is limited to the progress report of various CSS and does not include any other activities of panchayats such as tax collection or maintenance of assets.

This unavailability of data¹² has, in fact, continuously been pointed out by the successive SFCs in Madhya Pradesh. The First SFC records 'with regret' that the response to the questionnaire with regard to financial status sent by it was limited only to 32% of the entire panchayats, which they claim 'is an indication of indifference beyond imagination, not only of the panchayat raj institutions, but also of the district officers' (GOMP 1996: 44). It urged for 'strong need for setting up an institute which would not only make a review of the finances of rural local bodies from time to time but also develop a data bank relating to such bodies' (*Ibid*: 52). However the situation had not improved by the time the Second SFC faced the same problem 'since there existed no agency at the state level which could collect and provide comprehensive and

¹² It has to be noted that the unavailability of data is not unique to Madhya Pradesh but also true to many States, as can be speculated from the statements of the Twelfth Finance Commission cited earlier in this Chapter. It is no wonder the progress report of the centrally sponsored schemes is available in all the States where they are implemented since DRDA has traditionally been a central government agency to make sure the implementation of such schemes at each district level. Even in case of Bihar, one of the allegedly worst governed States, the data for centrally sponsored schemes were available though they were one and the only data with regards to the village panchayats' activities.

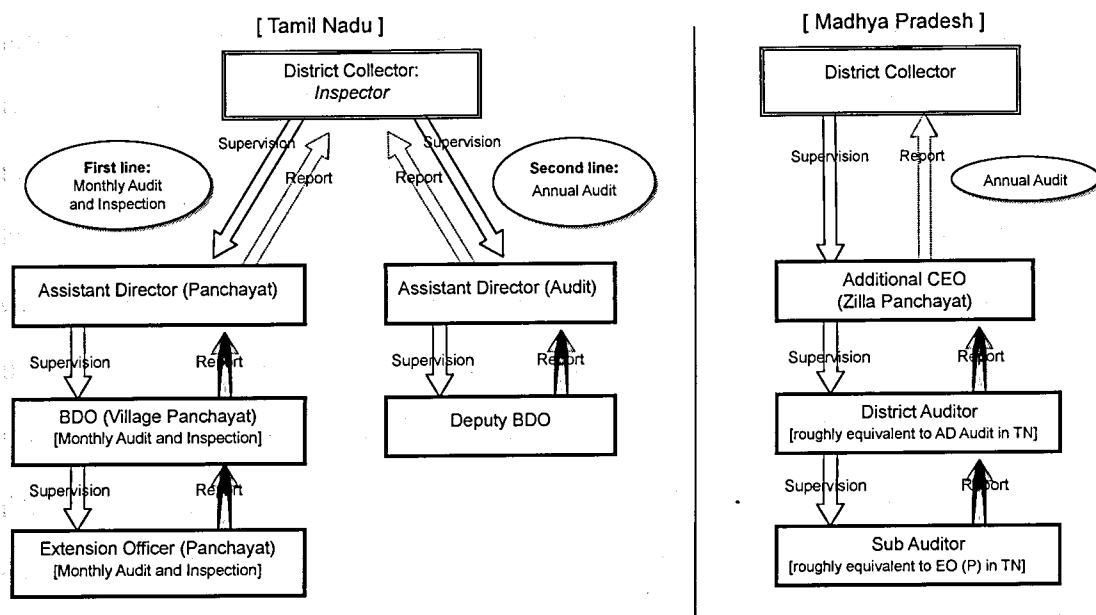
up-to-date data and information, relating to the finances of local bodies' (GOMP 2003: vi). At the time of writing in February 2006, the Third SFC had also sent the questionnaire to each block with regard to tax collection of panchayats in November 2005 but the questionnaire remained unanswered at the block level even after three months. A block level official claimed, 'It is such a waste of time. In order to fill in the form, we have to call all the panchayat secretaries and tell them to make these figures. Since many of them are not well educated, how can you expect them to make such figures?'¹³ Compilation of data is thus, considered to be the responsibility of the panchayats themselves but not of the local administration. It is probably due to the fact that such data is required only by the newly established State Finance Commission (SFC). SFC is constituted once in five years and holds an independent position vis-à-vis the State administration. For the local officials, unless they are requested by the upper level of administrative apparatus, it may not be considered as their responsibility to guide the panchayat secretaries to compile such data.

c) Inspection and guidance

The data available on panchayats in Tamil Nadu are compiled not simply for reference for the officials but also are a sign of government's commitment to act on such issues. Apart from the annual audit, there are regular monthly inspections on implementation of various schemes, accounts and other registers of village panchayats once a month by EO(P) and by the BDO (VP) once in a three months (Figure 4.1). In terms of the annual account audit, after the closure of the fiscal year, the accounts of

¹³ Interview with a CEO(JP) on condition of anonymity, February 8, 2006, Betul district, Madhya Pradesh

Figure 4.5: Inspection and audit administration structure in Tamil Nadu and Madhya Pradesh



village panchayats will be first audited by the Deputy BDO, who is supervised by the Assistant Director (Audit). The Assistant Director (Audit) also conducts spot inspections of 10% of village panchayats in the district once every two months. The District Collector, as the Inspector, heads the audit and inspection system and checks the reports of his/her subordinates. From the interview with both officials and secretaries, it appears that these inspections are sometimes substituted by the interaction at the weekly meetings, but nevertheless, officials do seem to visit panchayats at least once a month. Through these inspections and meetings with secretaries, the latter would be instructed to keep the accounts properly and the Form No. 30 makes easier to check monthly financial status of all the panchayats in a uniform manner. Such inspections operate not only for proper account maintenance but also to ensure the performances of panchayats including increased panchayat revenues. On the basis of the data submitted to the Directorate in Chennai, officers in charge at the district level are encouraged to improve the figures in order to reach the targets, such as 100% collection of tax, completion of schemes, utilisation of funds within the fiscal year and so on. If any

serious irregularities or significant failures in tax collection are found in the monthly reports or regular spot examination by the higher officials, there is a chance that the BDO(VP), EO(P) or Deputy BDO will be subjected to disciplinary action for negligence of his/her duties, including suspension in the worst case. They therefore have to make sure that the village panchayats collect tax properly. As a result, for example, officials both at the block and district level recognise which panchayat has trouble in collecting house tax for what reason and in the case of TN1, officials help the panchayat to send demand notes to the engineering college which had been refusing to pay.¹⁴ It is important to note that such activities of frequent inspections and regular reports such as Form No. 30 were introduced after the devolution of power to the PRI. The secretary of TN3 claimed that since 1996 when officials withdrew their direct control over panchayats, house tax collection as well as other inspection activities became 'much stricter and systematic' than before. Another secretary in TN5 also confirmed that before 1996 the number of registers on accounts that they were required to submit to the local administration was around 10, while after 1996, it has increased to as many as 32 records. While devolving powers to the PRI, the State government has presumably strengthened its role as a supervisor or a comptroller.

In Madhya Pradesh, the inspection system shares the basic structure with that of Tamil Nadu. PSEO is in charge of inspecting the activities of village panchayats monthly. In contrast to Tamil Nadu, however, except for the annual auditing, monthly inspection is provided as optional and not conducted regularly. This is also partly due to the fact that the officials used to be discouraged from visiting village panchayats too often.¹⁵ Even if it is conducted, inspection is carried out in a less systematic manner

¹⁴ Failing to see the concerned college to pay house tax, helpless EO(P) was afraid that the researcher might report this case to the upper level of administration and there will be some measure of punishment as a consequence. For this reason, EO(P) repeatedly stressed how helpless the situation was for one officer to deal with and asked about the researcher's intention to report this case or not.

¹⁵ See the last part of section 3.3.2 in Chapter 3. This was the situation in February 2004, but it seemed there were slight changes in inspection activities under the BJP government since November 2003. Some village panchayat

since there is no such format as Form No. 30 as in the case of Tamil Nadu, which rationalises the inspection procedure. What is more, the annual audit activity is also less strict than in Tamil Nadu. Accounts of village panchayats are audited annually by the Sub-Auditor at the block office, but even this annual audit can sometimes be postponed or relocated to the district headquarter, in which case the village panchayat secretary has to travel there. There is also monthly, instead of weekly, meeting of panchayat secretaries at the block level. But the minutes of the meeting reveals that the meeting merely provides information from the government side on various government programmes or administrative issues. In the entire system of inspection and audit, or meetings with panchayat secretaries there is practically no chance for district administration to get information about, let alone improve, the tax collection of village panchayats.

On the other hand, Madhya Pradesh has a system of 'social audit' to fill in the gap of dysfunctional inspection activities. The idea behind this system, the then Chief Minister Digvijay Singh argues, is that in order to assure the autonomy of village panchayats, accountability should be secured not with the help of local officials who could at the same time exploit the development funds, but with the vigilance of civil society, such as NGOs as a group or individually.¹⁶ This is part of the reforms of *Gram Swaraj* (village self-rule) that was examined in Chapter 3. The emphasis is put on the 'autonomy' of the Gram Sabha, so the audit of Gram Sabha accounts is to be conducted by an 'Auditor' who is appointed at a Gram Sabha meeting, and not by government officials. The Auditor is supposed to be accountable to the Gram Sabha.

However, for two reasons it is difficult in reality to sustain all the functions and responsibilities of the Gram Sabha as envisaged in the reformed Act. First, the

secretaries admitted they had more frequent inspections since April 2004, while still others do not recognise any change. The fact that officials were discouraged to visit panchayats too often will be discussed in the next chapter.

¹⁶ Interview with Digvijay Singh on 20 February 2004 in Bhopal.

panchayat secretary is already overburdened with responsibilities and workload. The account books of the Gram Sabha are supposed to be maintained by the village panchayat secretary, who has to keep all the Gram Sabha accounts within the village panchayat, in addition to the village panchayat accounts. In all the studied panchayats, this was not pursued and only the village panchayat accounts or at most, accounts of the main village (where the panchayat office locates) were kept by them. Second, and more importantly, the attendance of Gram Sabha meetings tends to be very low and the participants are often limited to people belonging to the dominant caste. As shall be re-examined in the section later, in such an environment, social audit appears to be difficult to function.

To summarise, through incentive mechanisms and regular inspection activities, based on the accumulated data on panchayat finance and other activities, the State government of Tamil Nadu has demonstrated its higher level of administrative capacity. On the other hand, Madhya Pradesh government has established little evidence of administrative capacity. This is partially due to the differences in historical development of the PRI system in the two States and partially to the strategic policy direction chosen by the Congress government in Madhya Pradesh. The State government of Tamil Nadu is capable of checking the status of tax collection regularly, guiding the panchayats to raise collection ratio and providing incentives to do so. None of these actions was taken by the Madhya Pradesh government. The Madhya Pradesh government has no accurate data with regard to the panchayats' tax collection, does not conduct regular inspections nor has an opportunity to guide them to increase revenue. It is, therefore, not difficult to presume that such diverse institutional differences that exist between the two States may bring about different outcomes with regard to panchayats' tax collection.

4.2 Administrative capacity and tax compliance

If it can be assumed that such administrative arrangements examined above are equally applied all over the State, the tax collection status can be generally expected to be higher in Tamil Nadu panchayats and lower in Madhya Pradesh panchayats. This section tries to first examine to what extent administrative capacity of the State government in each State respectively affects the level of tax compliance for the panchayats.

In order to compare the level of compliance or the effective tax enforcement, the ideal indicator will be the house tax collection ratio (total collection divided by total demand) in each panchayat. However, due to data deficiency, this is not possible and has to be replaced by the available data in both States, which is, per capita tax revenue in each panchayat for the fiscal year 2003-04. Due to the reason explained below, the data for 2004-05 is also added in the case of Madhya Pradesh. In the case of Tamil Nadu panchayats, data on collection ratio was available and hence, added as a criterion for comparison within the State. In addition, attitudes of panchayat authority, that is, the elected panchayat president and the panchayat secretary (not elected) towards taxation are also studied.

4.2.1 Madhya Pradesh

House tax collection ratio in six Madhya Pradesh panchayats is overall very low. Out of 6 panchayats, MP4 does not even impose house tax and MP3 imposes but does not collect. The other 4 panchayats collect marginal amount either for 2003-04 or 2004-05 (Table 4.1)¹⁷. It can be observed in MP5 has relatively higher level of collection as it alone levied house tax both for 2003-04 and for 2004-05 while all the

¹⁷ Due to the deficiency of record, the accurate collection ratio was not available.

other panchayats collect only either of the fiscal years. MP1 and MP6 follow with collecting Rs. 2.1 and Rs. 1.6 per capita respectively for 2004-05. This status of 6 panchayats is more or less similar to the findings from the previous visits to Damoh and Vidisha (Sasaki 2005), and hence, these 6 panchayats are considered not extreme cases in terms of house tax collection. In fact, the second State Finance Commission of Madhya Pradesh pointed out that 55.21% of sampled panchayats does not raise any tax revenue and 45.46% does not raise any 'own revenue' at all (GOMP 2003). Sampled panchayats appear to well represent this dismal performance of the panchayats in Madhya Pradesh.

The administrative system within Madhya Pradesh panchayats for taxation where it exists is almost the same in every panchayat and not much effort is made for increasing collection except for appeal in Gram Sabha or an occasional *munadi* (drum advertisement by the village guard). Whatever the amount received is therefore, voluntary payment often by households which needed some official documents from panchayat or needed to clear liabilities to panchayat for submission of affidavit to stand for the elections. This explains why collection for 2004-05 suddenly increased for the panchayat elections were held in January 2005. In another words, panchayats that do not have even such minimal revenue may lack some sort of authority to impose the legal requirement for issuing official documents and/or another informal set of rules are being applied under the table.

It is often pointed out that panchayat president is reluctant to tax his/her fellow villagers anticipating the chances in the next elections (PRIA 2000; Sethi ed. 2004).

Table 4.1: Summary of house tax collection status and trust in village panchayat of Madhya Pradesh and Tamil Nadu

State	District	Block	Population	House tax collection ratio/status for 03-04	03-04 HT revenue	04-05 HT revenue	03-04 Per capita HT	04-05 Per capita HT	Per capita HT 03-04/04-05 total	GP trust	GP working for entire villages	GP improved since 1994	GP fund managed properly
MP1	Betul	Athner	2,226	15.4%	0	4,599	0.0	2.1	2.1	94.3%	100.0%	88.6%	84.0%
MP2	Betul	Multai	1,789	Some col.	751	0	0.4	0.0	0.4	62.5%	53.1%	62.5%	41.9%
MP3	Guna	Raghogarh	1,848	No col.	0	0	0.0	0.0	0.0	53.3%	40.0%	20.0%	10.0%
MP4	Guna	Chanchaora	1,436	No levy	0	0	0.0	0.0	0.0	47.1%	61.8%	52.9%	18.2%
MP5	Ujjain	Ujjain	2,394	Some col.	750	8,240	0.3	3.4	3.8	96.8%	100.0%	96.8%	80.6%
MP6	Ujjain	Badnagar	2,017	Some col.	0	3,325	0.0	1.6	1.6	51.5%	60.6%	30.3%	45.5%
TN1	Dharmapuri	Pennagaram	5,844	23.6%	24,800	50,400	4.2	8.6	12.9	90.6%	93.8%	90.6%	93.8%
TN2	Dharmapuri	Harur	3,693	100.0%	24,203	30,253	6.6	8.2	14.7	87.1%	92.9%	83.9%	87.1%
TN3	Coimbatore	Avanashi	3,607	76.9%	62,045	27,614	17.2	7.7	24.9	96.9%	100.0%	74.2%	78.1%
TN4	Coimbatore	Pollachi South	3,087	100.0%	41,077	13,698	13.3	4.4	17.7	97.1%	100.0%	96.8%	70.6%
TN5	Ramnad	Mandappam	3,119	100.0%	78,807		25.3	0.0	25.3	100.0%	100.0%	93.5%	93.5%
TN6	Ramnad	Mudugullathu	2,303	100.0%	16,870	14,820	7.3	6.4	13.8	100.0%	100.0%	96.7%	90.3%
Average: MP			1,952		250		0.1	1.2	1.3	67.6%	69.2%	58.5%	46.7%
Average: TN			3,609	83.4%	41,300		12.3	5.9	18.2	95.3%	97.8%	89.3%	85.6%

Many panchayat presidents claim villagers do not pay as most of them are poor and they are not willing to force villagers for the sake of their popularity. Most secretaries are aware of the significance of raising tax revenue which is often stated in the textbook of official training programmes they attend. Therefore, competent secretaries are often

caught in a dilemma between their official duty to levy tax and their position subordinate to the panchayat and claim that unless presidents are willing, they cannot increase tax revenue.

4.2.2 Tamil Nadu

Tamil Nadu panchayats, on the other hand, have generally high collection ratio¹⁸. Except for TN1 and TN3, all panchayats have 100% collection for 2003-04 (Table 4.1). The collection status for 2004-05 was more or less the same and TN6 had already achieved 100% collection at the time of my visit in February. For both TN1 and TN3, each recorded 23.6% and 76.9%, there are specific reasons for low level of collection. In TN3, there was an allegation in one of the villages over the transaction of land in which the local church acquired land and distributed among the believers. Since the church lost the court case, the villagers had to evacuate the land, on the basis of which they refused to pay house tax.¹⁹ TN1 has within its jurisdiction one engineering college against which the panchayat imposed house tax claiming that it was not a government institution which could be exempted from levy. The college authority claims that the educational institution should be exempted from any tax obligation to the panchayat and has not paid any house tax it was charged by the panchayat for the past three years. TN1 was considering taking a legal action against the college. However, in the case of TN1, even if the demand for the engineering college is excluded, the estimated collection ratio comes around 40%. Within six panchayats of Tamil Nadu, only TN1 has low level of tax compliance. Except for such specific case, the level of compliance is almost the same in every panchayat.

¹⁸ The collection ratio is the amount of house tax collected during the fiscal year divided by demand including arrears from previous fiscal years.

¹⁹ The population of the disputed village consists 11.5%. It is estimated that had they paid tax, the collection ratio would be at least more than 80%.

As for the perception of panchayat presidents, it is not significantly varied from the case of Madhya Pradesh. Most panchayat presidents admit they are not willing to tax their fellow villagers as was the case for Madhya Pradesh counterparts. They claim that tax burden is quite severe particularly for poor villagers. To a lesser extent, panchayat secretaries agree with the presidents while both presidents and secretaries assert there is no other option than to collect tax because of the pressure from the local administration. They are pressurised even to raise tax rate according to the government order. As a result, except for TN3²⁰, all the five panchayats have revised and increased the tax rate in the past three fiscal years.

It appears in general that administrative capacity of the State government can explain the low level of house tax revenue in Madhya Pradesh panchayats and high level of collection ratio in Tamil Nadu. There are, however, marginal differences even among six panchayats of Madhya Pradesh as well as among those of Tamil Nadu. Per capita house tax revenue of MP5 is slightly higher than the others followed by MP1 and MP6. Equally in Tamil Nadu, house tax collection ratio for 2003-04 shows greater divergence. While four out of six panchayats record 100% collection, the collection ratio for TN1 is only 23.6% and less than 50% even if the demand for the engineering college is excluded. Especially this case of TN1 cannot be explained only by administrative capacity of the State government, even if it should be applied as an equal condition to all the panchayats in the State. The examination has to be made at a more micro level so that it reflects minor differences among panchayats.

4.3 Fiscal Exchange

If some sort of diversity among different panchayats has to be taken into

²⁰ The current secretary and BDO(VP) in charge claim that in the past three years, there were only temporary secretaries due to which the revision as well as collection itself was not properly enforced. The secretary also asserts that the current panchayat president feels insecure and worries that the secretary might deceive him by forging the accounts, because of which he constantly harasses the secretary and no secretary lasts more than a year. One of the reasons was claimed to be since he was 'illiterate and getting older'. The current secretary is wife of the secretary of nearby panchayat, both of whom have relatively good reputation among villagers and hence, are on good terms with the president.

consideration in relation to the administrative capacity, one reasonable indicator to distinguish individual panchayat might be the quantity of the service provision. As Fjeldstad's case in Tanzania shows, it is quite rational to expect people pay taxes in exchange for the services they receive from the government as discussed in section 2.1 of Introduction. This factor can be taken into consideration by examining the list of projects carried out by the respective panchayat. Although lack of proper accounts makes panchayat-wise comparison of the actual service provision difficult, whatever limited information obtained from each panchayat provides sufficient evidence for the enquiry.²¹ Table 4.2 and Table 4.3 show the major works carried out by the panchayat. In Madhya Pradesh, proper accounts were available only from MP1 and MP5 while in MP6 it was not possible to check the account book in detail. Although the complete records of each projects are not available, it is possible to speculate that the two panchayats with higher tax revenue, MP1 and MP5, are not the ones carrying out the maximum projects. MP3, for instance, constructed three wells which by itself exceeds the sum of allocated project funds in MP1 or in MP5. Nevertheless, this investment by MP3 does not lead to high level of tax compliance. On the other hand, the relatively proper account management in MP1 and MP5 is an interesting finding which will be further examined in the later section.

In the cases of Tamil Nadu panchayats, all the studied panchayats manage accounts properly and the differences among panchayats can be found in the kind of works and the amount of project funds. The record of TN1, the only panchayat with low level of tax compliance in Tamil Nadu, does not significantly differ from those of the other panchayats although the total amount of project funds is smaller than the others except for TN6. Since TN6 collects tax successfully despite its small amount of allocated

²¹ In Madhya Pradesh panchayats in general, the accounts are not maintained properly and to find out major works or provided goods and services from the account book is often proven difficult. Therefore, information obtained from interviews of the panchayat president and secretary is used for comparison. In case of Tamil Nadu, the record in account books was confirmed with the information from interviews of the same.

project funds, the assumption of fiscal exchange does not seem to be applicable at least in these cases.

Table 4.2: List of major works for 2003-04 by Madhya Pradesh panchayats (Rs.)

	Scheme	Amount	Project
Koylari	JGSY	3,990	Deepening of well
	JGSY	3,990	Drainage
	JGSY	24,495	Road repairing
	SGSY	1,108	Plantation
31.4	IAY	11,000	Renovation
69,813	Mulbhut	25,230	Construction of stage
Khaerwani	SGRY	?	Bridge construction
	SGRY	?	Road construction
	SGRY	?	Construction of stage (Chaopal)
159.3	MPLADS	285,000	Pani Roko, tank, parcoration tank
285,000	Mulbhut	?	Partly allotted to Nal Jal Yojna (Water tab connection scheme)
Bhulay	MPLADS	340,000?	Well construction
	MPLADS	120,000	Road maintenance
	Mulbhut	?	Small road (Nali)
64.9	Mulbhut	?	Midday meal
120,000	Mulbhut	?	Road maintenance
Netyakhedi	SGRY	?	Road maintenance
	IAY	?	
	Eleventh Finance Commission	?	School construction
0	Mulbhut	0	
0	MP/MLALADS	0	
Chandukhedi	SGRY	50,000	Paving; Cement Concrete (CC) Road
	SGRY	12,000	Mitti road
	Gaon Khaniz?		CC Road, for mining
	MLALADS	52,000	CC Road
97.7	IAY	80,000	New (2), Rennovation (3)
234,000	?	40,000	Toilet and bathing place for two elementary schools
Biryakhedi	?	?	Construction of school playground
	?	?	Road repairing

Note:

Per capita funds

Sum of funds

*Mulbhut: State Finance Commission grants

*MP/MLA LADS: MP/MLA Local Area Development Scheme

*Gaon Khaniz: Mining tax revenue

Table 4.3: List of major works for 2003-04 by Tamil Nadu panchayats (Rs.)

	Scheme	Amount	Project
Biliyanur	SGRY	33,668	Stage repair
	SGRY	12,928	Rain water harvesting
	IAY	210,344	IWAC, women's sanitary complex, no allotment of houses
	Eleventh Finance Commission	17,250	Borewell repair parts
	Eleventh Finance Commission	33,000	New hand pump
	Eleventh Finance Commission	14,054	OHT motor changed to new
61.1	Eleventh Finance Commission	25,671	New pipeline for drinking water
356,867	Eleventh Finance Commission	9,952	Labour for OHT motor changed to new
Keeraipatti	SGRY	197,934	New road, 50%
	SGRY	42,000	New road, cement
	SGRY	21,607	PDS, door and window
	SGRY	13,932	Rain water harvesting
	SGRY	154,750	PDS
	SGRY	60,000	Thrashing floor
	IAY	83,854	Burying ground, Road (Indiranagar), Road (from Kuppusami land to Muganur temple to high school)
	Eleventh Finance Commission	6,250	Streetlight maintenance
178.6	Eleventh Finance Commission	41,358	Motor pump maintenance
659,535	Eleventh Finance Commission	37,850	Hand pump maintenance
Muriyandampalayam	General Account	211,067	
	General Account	119,355	Electricity bill
	General Account	129,793	Drinking water maintenance
	General Account	66,891	Street light accessories
	General Account	76,921	Electric motor maintenance
	General Account	150,000	Water bill
	General Account	66,247	Upgradation of roads
	SGRY	?	4 school buildin compounds
	SGRY	?	3 CC roads
227.4	SGRY	?	Compost yard
820,274	IAY	?	10 new houses
Singanalur	Eleventh Finance Commission	50,525	Drainage repair
	SGRY	52,874	SHG building
	SGRY	28,290	School compound wall
	SGRY	30,035	CC road
298.1	SGRY	248,053	Metal road
920,205	IAY	510,428	IAY group houses
Perungalam	Eleventh Finance Commission	50,000	New drainage
	Eleventh Finance Commission	49,401	Road maintenance
	Eleventh Finance Commission	47,958	Crematory shed construction
	General Account	14,918	Drinking well maintenance
	General Account	26,211	Street lights maintenance
	General Account	42,910	Oorani (tank) maintenance (deepening)
	General Account	47,818	Water pipeline maintenance
	General Account	31,669	Panchayat building maintenance
	SGRY	54,813	New tank construction
221.9	SGRY	60,847	Metal road
692,129	IAY	265,584	21 houses
Prabukalur	General Account	15,512	Hand pump maintenance
	General Account	32,390	Overhead tank-implements & wages
	General Account	38,403	Road maintenance
	Eleventh Finance Commission	33,626	Construction of small lane
52.1	IAY	?	6 new houses
119,931	General Account	?	Lady's meeting hall&Sanitary complex

Moreover, there was an interesting finding from the questionnaire – that Tamil Nadu villagers were not necessarily knowledgeable about the overall activities of panchayats. Such a finding differs sharply from that of Fjeldstad's case in Tanzania (2004a). It is not that the level of 'awareness' is low in Tamil Nadu. The level of education of respondents is much higher in Tamil Nadu than in Madhya Pradesh. More than 70% had some sort of education and 28% had more than high school education, while in Madhya Pradesh the figure for the latter is only 11%. 65% (22% in MP) of the Tamil respondents read newspaper more than once a week and 59% (39% in MP) has regular access to radio or TV. On the basis of this difference, observers often claim that 'awareness' is higher in Tamil Nadu which make villagers' attitude more cooperative for development of the village. Despite such positive indicators, first of all, only 25% of respondents, as against 41% in Madhya Pradesh panchayats, could name more than 4 activities/projects of panchayats.²² In Madhya Pradesh panchayats in general, even when some villagers complain that the panchayat did nothing in their village, they are fully aware of activities/projects in other villages conducted by the panchayat such as construction of new road or wells, which they enviously count on. Secondly, the awareness with regard to panchayat politics seems equally low in Tamil Nadu. Respondents who could recall more than half of all the candidate names for panchayat president in the last election held in 2001 was 68%, 4 points lower than in Madhya Pradesh panchayats. As many as 16% people could not recall a single candidate's name for the last panchayat president election, which obviously means they could not even name the current panchayat president. Thirdly, Tamil Nadu taxpayers are not so aware about the way house tax is used. More than half (57.5%) of respondents pays without

²² This is, of course, in spite of the fact that Tamil Nadu panchayats carry out as many activities/projects as in their Madhya Pradesh counterparts or even more as shown in Table 4.2 and 4.3.

knowing how the tax is going to be used while most of them (75.0%)²³ have faith in the panchayat in the way tax is used. Most villagers in Tamil Nadu pay tax but they are not too keen to know what the tax is going to be used for. In this assessment, there was no difference among six panchayats. In sum, taxpayers in Tamil Nadu pay voluntarily to the extent that they leave the tax they paid fully in the hands of panchayat and do not pay much attention to the way the tax is used. This tendency can be seen regardless of respondents' gender, level of education, income and caste. Both from the actual performance confirmed by account books and interviews and from the observed perception of villagers, the assumption of fiscal exchange, that is, the more people are satisfied with tangible benefits provided by the government the more compliance can be induced was proven not applicable in this case. There has to be other explanatory factor to explain such variations.

4.4 Level of economic development and tax compliance

Can one suggest that variation between panchayats in terms of house tax collection depend on or correlates strongly with differences in the level of socio-economic development? In the cases of panchayats in Madhya Pradesh, diversity in the level of socio-economic development may partially explain the level of house tax collection. Certainly the collection status of two panchayats in Ujjain district (MP5 and 6), the most economically advanced of the three districts, is better than the two panchayats in Guna district (MP3 and 4) combined. These two panchayats of Guna district, the least developed district of the three do not impose or collect tax. However, even in relatively backward district Betul, MP1 succeeds in collecting more per capita tax than MP6 in Ujjain district. In addition, if we consult the data from 2003-04 fieldwork, it was found

²³ Out of remaining 25.0%, 8.7% of respondents answer they do not know about the way tax is used for and they do not trust panchayats and the remaining 16.3% of respondents simply answer they do not know.

out that the level of economic development of the district does not essentially define the level of tax collection. Damoh district ranks at the 18th in the HDI ranking and the 10th in terms of 'income' while Vidisha district scores at the 27th in the HDI ranking, both of them have higher HDI than either Betul district or Guna district. However, out of four panchayats in Damoh district and one panchayat in Vidisha district visited in 2003-04, no panchayat actually collects house tax although some had imposed (Table 4.4).

As for the cases in Tamil Nadu, the data equally provide little evidence that the two factors are strongly related to each other. The only failure case of TN1 cannot be attributed to the relative socio-economic backwardness of Dharmapuri district since TN2 in the same district has successfully achieved 100% collection. Even in Ramnad district, which is more economically backward than Dharmapuri district, both panchayats (TN5 and 6) successfully collect tax. If we expand the comparison to the district wise performance of panchayats based on the data acquired from the district administration, it can be observed from Table 4.5 and Table 4.6 that the most economically advanced district Coimbatore has on average lower collection ratio (78.2%) than Ramnad district (98.9%) which is less economically developed than Coimbatore.²⁴ As long as the basic tax enforcement is concerned, the case of Ramnad district has demonstrated the capacity of panchayat authorities to enforce taxation

²⁴ However, if we examine carefully the per capita house tax in the two districts, it is almost double in Coimbatore (Rs.34.5) while it is only Rs. 17.7 in Ramnad district. While this is partially related to the delay in enforcing revision of tax rate in Ramnad, this difference might perhaps be attributed to the socio-economic backwardness of Ramnad district. While per capita tax revenue might correlate with the level of socio-economic development, tax enforcement does not. For the objective of this study, the comparative perspective is fixed in terms of tax enforcement. As for the revaluation of house tax, as briefed earlier, the Tamil Nadu government had issued a government order to guide panchayats to change the evaluation system of house tax. The district administration encouraged panchayats to revise the tax rate and many panchayats had revised and increased the tax collection already. In the case of Coimbatore, all but one panchayat revised the tax rate between 1999-2000 and 2003-04 while in Ramnad 67 panchayats (16.7%) have not revised the tax in the same period. The low level of per capita house tax in Ramnad is perhaps due to the delay in enforcing revision of tax rate. However, considering the fact that the rest of 83.3% panchayats have already revised, it can be easily expected that the original levy had been very low.

Table 4.4: House tax collection status of five VPs from 2003-04 fieldwork

District	Block	VP	Imposition status	Collection status	Details
Damoh	Damoh	Damoh1	No	-	
Damoh	Damoh	Damoh2	No	-	
Damoh	Pataria	Pataria1	Yes	0	No collection despite VP secretary's efforts to visit every house. But optimistic since the panchayat election will ensure some collection.
Damoh	Pataria	Pataria2	In preparation	-	In preparation since the VP now has to pay the electricity bill for street lights which had long been paid by the local factories
Vidisha	Vidisha	Vidisha1	Yes	0	

Source: 2003-04 Fieldwork

Table 4.5: Ramnathapuram District House Tax Collection for the year 2003-0

Block	100%	91%-	75%-90%	50%-74%	49% and below	Total No. of VP
Ramnathapuram	25		1			26
Thiruppullani	32			1		33
Mandapam	-	-	-	-	-	0
R.S.Mangalam	35					35
Thiruvadanai	45		1		1	47
Paramakudi	39					39
Bogular	26					26
Nainarkoil	29	5		3		37
Mudukulathur	46					46
Kamuthi	52				1	53
Kadaladi	58		1		1	60
Total	387	5	3	4	3	402
%	96.3%	1.2%	0.7%	1.0%	0.7%	
Average Collection Ratio for Ramnathapuram district					98.9%	
Average Per Capita House Tax for Ramnathapuram district					17.7	

Source: District administration, Ramnathapuram

Table 4.6: Coimbatore District House Tax Collection for the year 2003-04

Block		91%- 100%	75%-90%	50%-74%	49% and below	Total No. of VP
Anaimalai		19		1		20
Annur		19		5	1	25
Avinashi		20	5	2	1	28
Gudimangalam		14		3	7	24
Karamadai		13	1	3		17
Kinathukadavu		31		5		36
Madathukulam		5		2	1	8
Madukkarai		4		5	3	12
P.N.Palayam		2	1		1	4
Palladam		18	1	2	1	22
Pollachi North		33	3		1	37
Pollachi South		26		1		27
Pongalur		13			2	15
Sarkarsamakulam		8		1		9
Sulthanpet		18	1			19
Sulur		7	7	3	3	20
Thondamuthur		4	1	4	2	11
Tiruppur		15	2	3		20
Udmalpet		28	4		3	35
Total	0	297	26	40	26	389
%	0.0%	76.3%	6.7%	10.3%	6.7%	
Average Collection Ratio for Coimbatore district					78.2%	
Average Per Capita House Tax for Coimbatore district					34.5	

Source: District administration, Coimbatore

against their fellow villagers. Although the number of samples is apparently too small to conclude, the available data indicate that the level of socio-economic development cannot fully explain the level of tax enforcement. Especially the cases in Tamil Nadu suggest that there has to be other explanations for the different level of tax compliance.

4.5 Trust and Tax compliance

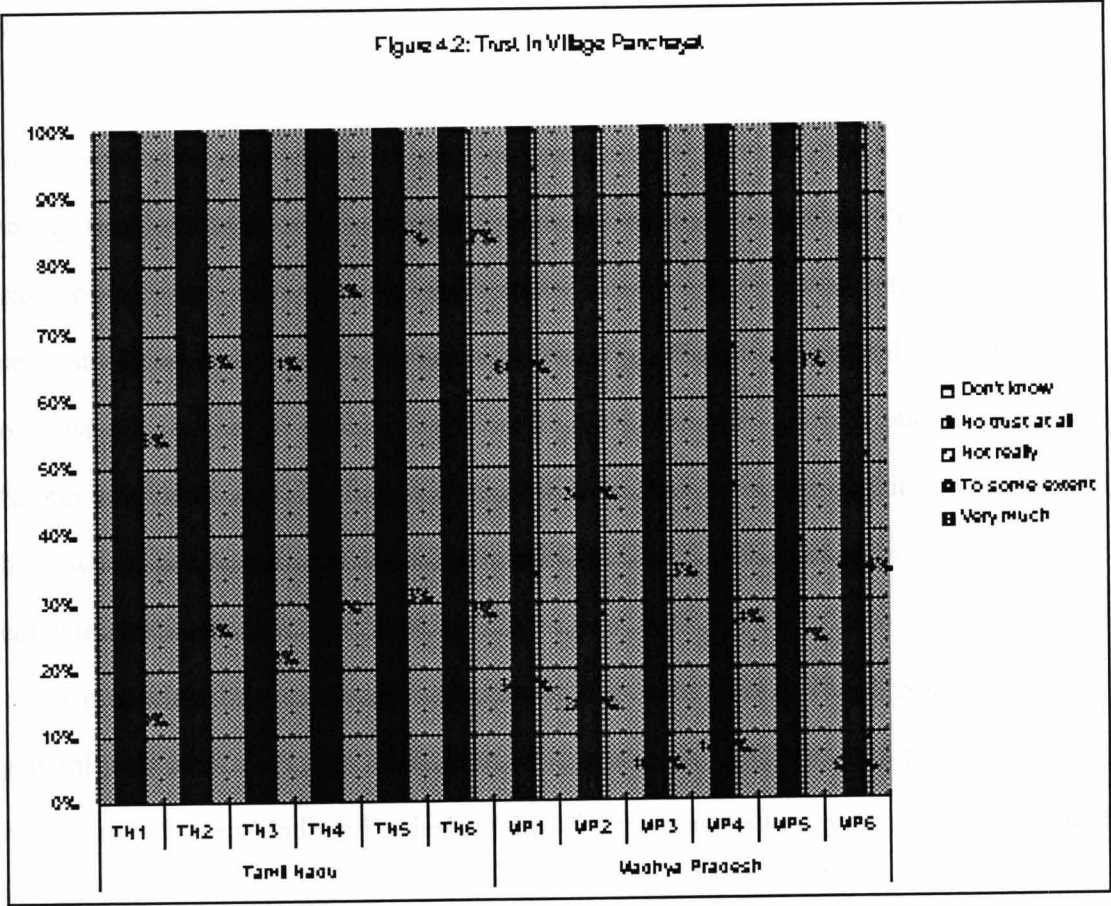
As discussed in the Introduction, if administrative capacity alone is not sufficient to realise higher level of tax compliance, then the notion of trustworthiness accounts as an additional explanatory factor. In the case of panchayat taxation, due to the reason

stated in the Introduction, trustworthiness of both the panchayat and the State government has to be taken into consideration. If administrative capacity is successfully translated into trustworthiness of the State government as well as trustworthiness of the panchayat, then, it is suggested a positive outcome can be observed in the house tax collection. To test this claim, trust in the panchayat and then trust in the State government will be examined respectively.

4.5.1 Trust in village panchayat

While there are only meagre differences in the status of tax collection, the results of questionnaire with regard to trust show that three indicators distinguish the two panchayats with relatively higher house tax collection, namely MP1 and MP5, and the other 4 panchayats. MP1 and MP5 have high level of trust in panchayat (Figure 4.2), all the respondents believe panchayat is working for entire villages but not only for a part of the panchayat and more than 85% people consider things have improved under the new panchayat system since 1994 (Table 4.1). On the other hand, another two panchayats without any house tax collection (namely, MP3 and MP4) and, to a lesser degree, the other two panchayats with relatively lower collection (MP2 and MP6) have lower level of trust in panchayat. Much less people consider the panchayat is working for the entire villages and many people disagree things have improved since 1994. The starkest difference is in the question whether or not people consider panchayat funds are managed properly. The MP1 and MP5 are largely trusted in their fund management while more than 80% people in MP3 and MP4 and more than 50% people in MP2 and MP6 suspect their panchayat presidents misappropriate funds. For the sake of the argument, MP1 and MP5 will be tentatively termed 'high trust' panchayats and MP3 and MP4 'low trust' panchayats.

In contrast, results of panchayats in Tamil Nadu show quite high level of trust in



all the panchayats and there is not much difference among them in terms of villagers’ level of trust. More than 95% of the respondents trust in panchayat, 97% of the respondents believes the panchayat is working for the entire villages, close to 90% of the respondents think things have improved under new panchayats and more than 85% people consider panchayat funds are managed properly. This is a similar tendency to the ‘high trust’ panchayats (MP5 and MP1) in Madhya Pradesh. However, if we closely examine the quality of trust, the data for TN1 and to a lesser extent TN3 with lower rate of tax collection clearly show a distinct feature from others (Figure 4.2). While in the other four panchayats the proportion of respondents who trust panchayat ‘very much’ scores more than 50%, the two panchayats with lower collection ratio show lower percentage. Especially TN1 scores only 25%. It may be possible to say that the trust put

on TN1 is conditional but less whole-hearted one.²⁵

In sum, within the six panchayats in Madhya Pradesh, the marginal differences in house tax compliance appear to be associated with the level of trust. It may be possible to say that low level of trust does not coincide with successful tax compliance as the cases of MP3 and MP4 suggest. More clearly, cases of five panchayats in Tamil Nadu suggest much higher compliance in Tamil Nadu panchayats are related to the high level of trust of villagers in panchayats. Looking at the quality of trust laid in panchayats further reinforces this finding. Although it is trusted 'to some extent', TN1 does not have whole-hearted trust of villagers in itself, which may be linked to TN1's lower tax collection ratio.

Comparing the taxpayers' attitudes in the two States, Tamil Nadu panchayats generally do not face much opposition or resistance in collecting tax as is the case for most panchayats in Madhya Pradesh. Asked for the reasons to pay tax, 85% respondents in Tamil Nadu answer they are always willing to pay as they trust the panchayat while less than 10% pay out of obligation; either because they needed some official certificates from the panchayat (4.4%) or because everyone pays (2.8%). In sum, the high level of trust towards village panchayats seems to be positively related to the high level of tax compliance.

So far, the question of absolute difference in terms of per capita tax collection between the two States is still left to be answered. Even if two 'high trust' panchayats in Madhya Pradesh show similar tendency in terms of the level of trust towards panchayats, they are far behind their Tamil Nadu counterparts in terms of tax collection. The high level of trust towards panchayat may be a necessary condition for tax collection though it certainly is not sufficient on its own. What accounts for this

²⁵ As for the reason of this less whole-hearted trust in TN1 is going to be examined in detail in the following.

difference between the two 'high trust' panchayats in Madhya Pradesh and Tamil Nadu panchayats?

4.5.2 Trust in the State government

If the focus is shifted to the villagers' trust towards the State government, there can be found a significant factor to differentiate Tamil Nadu panchayats from the two high trust panchayats in Madhya Pradesh. Figure 4.3 shows villagers' trust towards panchayats and the State government in the two States. The tendency for which villagers to trust more the institutions that are closer to themselves is common in both States. The noticeable difference is that villagers in Tamil Nadu not only show high level of trust towards panchayats (95%), but also retain high level of trust towards the State government (73.2%). If we further focus on the two high trust panchayats in Madhya Pradesh, namely, MP1 and MP5 and compare with panchayats in Tamil Nadu, even starker difference can be observed (Figure 4.4). In the two high trust panchayats of Madhya Pradesh, while nearly 85% of people trust panchayats, only 26% trust the State government. Overall, in contrast to the Tamil Nadu panchayats, the two high trust Madhya Pradesh panchayats do not extend their high level of trust in panchayats to the State government.

As for the case of TN1 in Tamil Nadu with lower level of tax collection, again, the same feature was observed as in the case of quality of trust in panchayats. While 68.7% of respondents trust the State government, the proportion of respondents who trust 'very much' is 3.1%, exceptionally lower than the average (33.3%) of other five panchayats, all of which score more than 30%. It has to be clarified, however, that the high level of trust in upper level of government *alone* does not coincide with the high level of compliance. This is exemplified by the case of two low trust panchayats in Madhya

Figure 4.3: Trust in panchayat and State government
(Tamil Nadu and Madhya Pradesh)

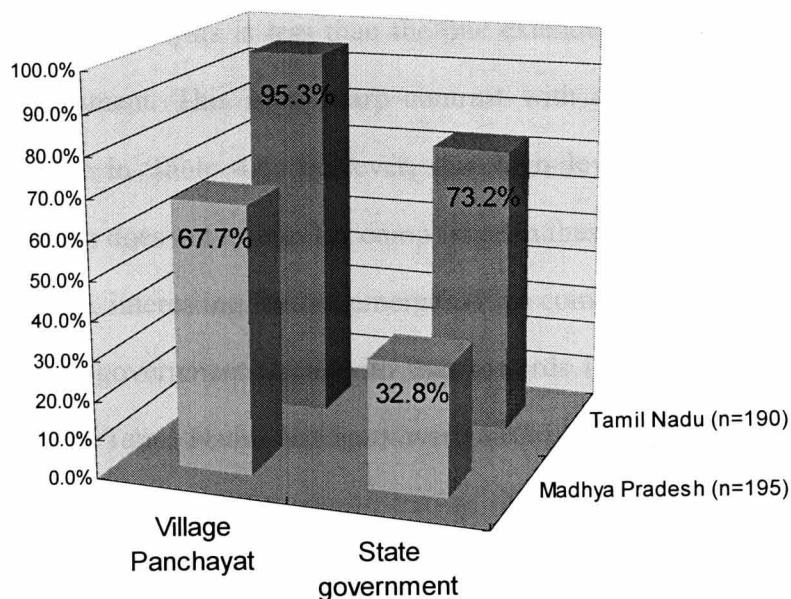
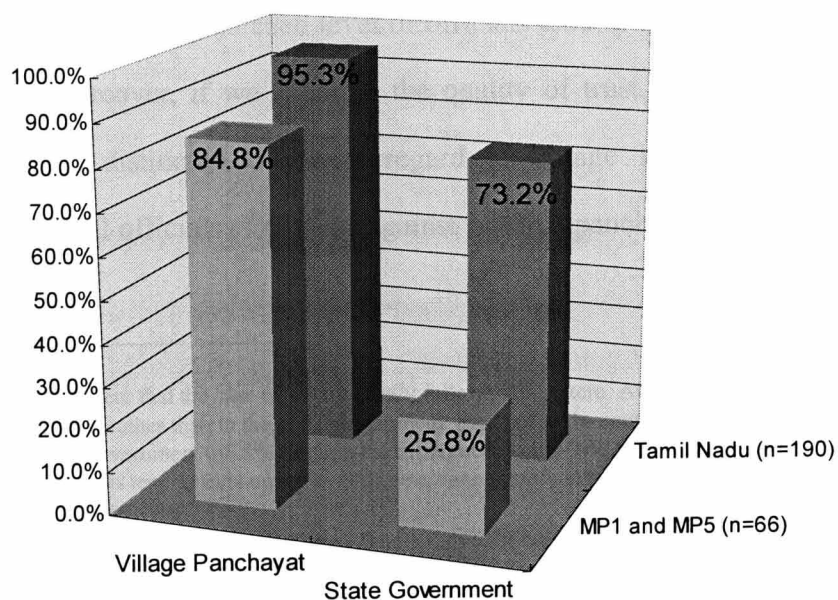


Figure 4.4: Trust in panchayat and State government
(Tamil Nadu and high trust VP of Madhya Pradesh (MP1&MP5))

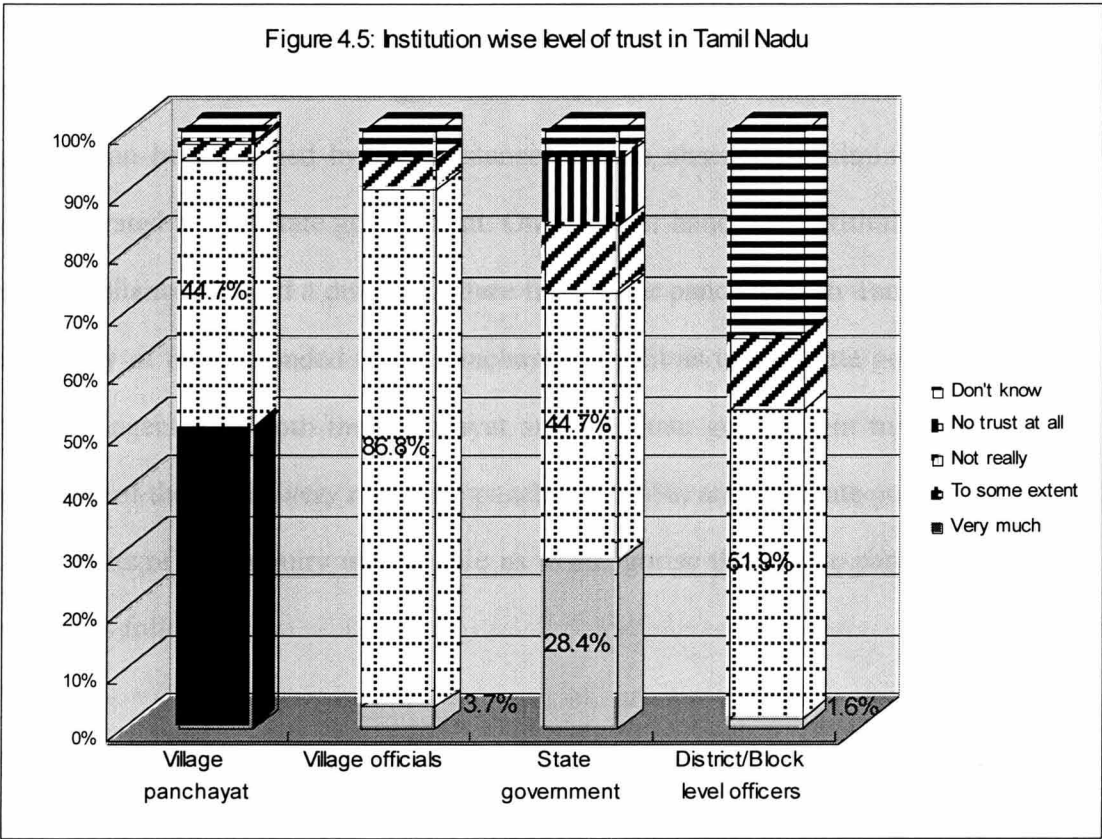


Pradesh, namely MP3 and MP4. Villagers in both panchayats trust more in further government, that is, the central government is trusted more than the State government and the trust in panchayats is less than the one extended to the any of the upper two levels of government. This is in sharp contrast with all the other panchayats.²⁶ As examined earlier in Table 4.1, however, this high level of trust in upper level of government alone does not lead to tax compliance in these two low trust panchayats.

Furthermore, interesting feature emerges if the comparison is extended to the level of trust towards government itself with that towards individual officials at the local administration in Tamil Nadu. Villagers were asked about their level of trust towards village level officials (village administrative officer²⁷ and government school and nursery school teachers) and towards block/district level officials (BDO, various extension officials and etc.). Figure 4.5, first of all, shows the tendency in which villagers incline to trust institutions closer to them, which was similarly observed in the case of trust towards different level of government as examined above. They put higher level of trust in village level officials than in block/district level officials. However, compared with the trust in village panchayat (95.2%) and the State government (73.1%), the level of trust extended to each level of officials tend to be lower, 90.5% and 53.5% respectively. Moreover, if we examine the quality of trust, the respondents who trust 'very much' is distinctly low with regard to village level officials (3.7%) and block/district level officials (1.6%), as against towards panchayats(50.5%) and the State

²⁶ It should be added here that the case of TN1 partially follows this pattern. Although the highest trust was recognised in panchayat rather than in the State government, trust put in the central government (71.9%) is more than the same for the State government (68.8%) though the difference is only 3%. It might be possible to hypothesise these low trust panchayats tend to trust upper level of government more in search for credible law enforcers. This factor also requires further study.

²⁷ Unlike most of panchayat secretaries, village administrative officers are government employees belonging to the revenue department of the State government. They work in their office within the village and their main tasks are to manage land revenue records and citizen registration (issuing birth/death/caste certificate). Such office does not exist in Madhya Pradesh and is considered as the legacy of *ryotwari* system in colonial India which will be further discussed in Chapter 6.



government (28.4%). During the interviews, villagers often mention incidents of corruption or bribery by local officials. The low level of whole-hearted trust towards individual officials may suggest that villagers are fully aware of the day-to-day corruption cases of the government officials. However, what is more significant is, despite such discontent with individual government officials, villagers in Tamil Nadu recognise these officials to be acceptable and give more credit to their employer, the State government. It may be possible to speculate that the villagers in Tamil Nadu, knowing fully that individual government officials are not necessarily honest or fair, have a capacity to recognise them to a certain extent and to extend their trust to the State government independently.

To summarise, both the panchayats and the State government in Tamil Nadu are generally trusted by the villagers while in Madhya Pradesh, the trust in these two institutions is much lower than in Tamil Nadu. As for trust in the panchayats, only two

panchayats, namely MP1 and MP5 are trusted highly by the villagers but the same villagers do not trust the State government very much. The difference between the two groups can be explained by the existence and the absence of administrative capacity demonstrated by the State government. On the other hand, TN1 with the lowest level of tax compliance showed a distinct feature from other panchayats in Tamil Nadu in terms of quality of trust extended to the panchayat as well as to the State government. While most villagers trust both the panchayat and the State government to a certain extent, very few of them trust very much the panchayat (25%) and the State government (3.1%). The results of our enquiry may enable us to categorise the twelve panchayats into four groups as follows;

Table 4.7: Categories for twelve panchayats

Group	Panchayats	Administrative Capacity	Trust in panchayats	Trust in the State government	Tax compliance
A	MP1, MP5	Low	High	Low	Low (but modestly higher than B)
B	MP2, 3, 4, 6	Low	Low	Low	Low
C	TN1	High	Not so high	Not so high	Low
D	TN2, 3, 4, 5, 6	High	High	High	High

In order to discuss further the efficacy of the hypothesis, detailed examination will be required for each group and especially for the panchayats belonging to **Group A** and **C**, which seemingly does not fit into the hypothesis.

4.6 Case Study

In proceeding our enquiry at the micro level, it is inevitable to incorporate the

analysis of caste configuration within each village. As discussed in Introduction, the redistributive functions of the panchayat can often be undermined by caste based conflicts within the panchayat. Even if the panchayat carried out numerous developmental works, the beneficiaries of such works might concentrate on a group of people belonging to the dominant caste in the particular panchayat. This often leads to increased discontent among the villagers belonging to the SC, ST or other weaker sections in the panchayat. If villagers are convinced that the panchayat is dominated by the interests of only the dominant caste, the trust towards panchayat can be low. In such cases, the level of trust in the panchayats or even the level of tax compliance might be a simple reflection of the kinds and attitudes of such dominant caste in each village. The following analysis incorporate these ideas and examine the cases of MP1, MP5 and TN1 in detail.

Table 4.8 and Table 4.9 show the village wise caste component in each village panchayat. In the cases of Madhya Pradesh panchayats, interestingly, the most numerically powerful castes in the two high trust panchayats, that is, MP1 and MP5 both belong to ST and SC. In the case of the former, *Gond*, ST is the most numerically powerful group. Similarly in MP5, the largest caste is *Ballai* and the second largest is *Chamar*, both of which belong to SC. In the rest of panchayats all the dominant castes belong to either OBC or other upper caste, namely, *Pawar* (OBC) in MP2, *Dhakar* (Others) in MP3, *Yadav* (OBC) in MP4 and *Sirvi* (OBC) in MP6. Although the last one, *Sirvi*, is numerically less dominant, all these castes are known to be powerful landed classes in each region. The posts of president of MP1, MP2, MP3 and MP5 are occupied either by SC or ST due to reservation for these seats. As for the post of secretary, except for the case of MP3, all the secretaries belong to the dominant caste or upper castes.

During the field visit, it was frequently heard that people belonging to SC or ST

Table 4.8: Caste configuration of Madhya Pradesh panchayats

		MP1				
Caste	Category	V1	V2	V3	V4	Total
Mehra	SC	4.7%	4.7%	2.3%	2.3%	14.0%
Gond	ST	23.3%	11.6%	16.3%	14.0%	65.1%
Ojha	ST	2.3%			4.7%	7.0%
Korku	ST			2.3%		2.3%
Khilar	OBC	2.3%				2.3%
Gavli	OBC			2.3%		2.3%
Mali	OBC			2.3%		2.3%
Kunbi	OBC				2.3%	2.3%
Golan	Others	2.3%				2.3%
Total		34.9%	16.3%	25.6%	23.3%	100.0%

		MP2			
Caste	Category	V1	V2	Total	
Chamar	SC	0.6%		0.6%	
Mang	SC	1.5%		1.5%	
Mahera	SC	3.4%	5.4%	8.8%	
Gaond	ST	6.0%		6.0%	
Pawar	OBC	39.9%	40.5%	80.4%	
Lohar	OBC	0.7%	0.7%	1.3%	
Kalar	OBC	0.6%		0.6%	
Naai	OBC		0.4%	0.4%	
Baniya	Others		0.4%	0.4%	
Total		52.5%	47.5%	100.0%	

		MP3			
Caste	Category	V1	V2	V3	Total
Mehtar	SC	1.1%		17.5%	18.6%
Chamar	SC	2.7%			2.7%
Shehriya	ST	10.6%			10.6%
Yadav	OBC	0.0%	7.7%		7.7%
Dhakar	Others	39.5%		17.6%	57.1%
Brahmin	Others	1.1%			1.1%
Dhimar	?	1.6%			1.6%
Lodha	?	0.0%	0.6%		0.6%
Total		56.5%	8.3%	35.1%	100.0%

		MP4			
Caste	Category	V1	V2	V3	Total
Mehr	SC	5.8%			5.8%
Chamar	SC	4.5%			4.5%
Mehtar	SC	1.0%			1.0%
Bhir	ST	15.3%			15.3%
Yadav	OBC	42.0%			42.0%
Gujjar	OBC		17.5%	10.4%	27.9%
Meena	OBC	1.7%			1.7%
Sharma	Others	1.4%			1.4%
Jain	Others	0.3%			0.3%
Total		72.1%	17.5%	10.4%	100.0%

		MP5		
Caste	Category	V1	V2	Total
Ballai	SC	20.7%	10.4%	31.1%
Chamar	SC	14.5%	6.2%	20.7%
Pardi	SC		2.7%	2.7%
Mehtar	SC	2.1%		2.1%
Anjna Patel	OBC	10.4%	9.3%	19.7%
Jaesvar	OBC	8.3%		8.3%
Banjar	OBC	3.1%		3.1%
Prajapati	OBC	1.0%		1.0%
Nai	OBC	0.4%	1.4%	1.9%
Jat	OBC	0.4%		0.4%
Chaodhri (Gari)	OBC	1.4%		1.4%
Brahmin	Others	4.6%	1.0%	5.6%
Rajput	Others	1.4%	0.6%	2.1%
Total		68.3%	31.7%	100.0%

		MP6		
Caste	Category	V1	V2	Total
Chamar	SC	7.6%	1.0%	8.6%
Ballai	SC	6.3%	1.3%	7.6%
Mehtar	SC	0.3%	1.3%	1.5%
Bargonda	SC	0.3%		0.3%
Bagri	SC		2.5%	2.5%
Bhir	ST	2.5%	0.5%	3.0%
Sirvi	OBC	25.3%		25.3%
Kachi	OBC	6.3%		6.3%
Rathor	OBC	5.1%	3.8%	8.9%
Mina	OBC	7.6%		7.6%
Prajapati	OBC	2.5%		2.5%
Gujjar	OBC	2.5%		2.5%
Dhobi	OBC	1.3%		1.3%
Damami	OBC	1.3%		1.3%
Sutar	OBC	3.3%	0.3%	3.5%
Kalal	OBC	0.3%	5.1%	5.3%
Gachi	OBC	0.8%		0.8%
Nai	OBC	0.3%		0.3%
Brahmin	Others	1.3%		1.3%
Kayast	Others	0.8%		0.8%
Rajput	Others		7.6%	7.6%
Beragi	?	0.5%	0.5%	1.0%
Kharol	?	0.3%		0.3%
Total		76.2%	23.8%	100.0%

Table 4.9: Caste configuration of Tamil Nadu panchayats

		TN1											Total
		V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	
Parayas	SC	0.2%	3.4%	0.2%			2.6%						6.4%
Kurmbas	ST											0.4%	0.4%
Vanyas	BC?	26.2%	19.4%	12.9%	6.9%	8.3%	4.4%	6.3%	5.6%	1.0%	1.3%	0.6%	93.0%
Muslim	Others						0.3%						0.3%
Total		26.5%	22.8%	13.0%	6.9%	8.3%	7.3%	6.3%	5.6%	1.0%	1.3%	1.0%	100.0%

		TN2							Total
		V1	V2	V3	V4	V5	V6	V7	
Parayar	SC				1.2%				1.2%
Arunthaiyar	SC							1.1%	1.1%
Kurawan	SC					0.2%			0.2%
Irular	ST				2.1%	2.1%	3.1%		7.2%
Malayali	ST	14.2%	10.4%	3.2%					27.8%
Vanyar	MBC	0.7%		1.2%	0.2%	12.4%			14.7%
Dobhi	MBC		0.2%						0.2%
Navithar	MBC					0.6%			0.6%
Gongu Vellalar	BC		0.3%	1.6%	5.0%	33.2%			40.0%
Naidu	BC		0.2%						0.2%
Vanya Chettiya	BC				0.3%				0.3%
Kammalar	BC					0.6%			0.6%
Kuyavar	BC					0.2%			0.2%
Muslim	Others			0.2%		4.1%		0.8%	5.2%
Iyar	Others					0.2%			0.2%
Total		14.9%	11.3%	6.2%	8.9%	53.7%	3.1%	1.9%	100.0%

		TN3											Total
		V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	
Pallars	SC			9.3%			0.4%						9.8%
Matharis/ Arunthaiyar	SC	7.5%	6.2%		4.7%	5.3%	0.3%						23.9%
Parayar	SC						0.5%						0.5%
Pandaram-Pujar	MBC		0.2%										0.2%
Muthiraiyar	MBC		0.2%		3.4%								3.6%
Navithar	MBC		0.1%										0.1%
Parayar	MBC								3.9%				3.9%
Vannan	MBC							0.1%			0.1%		0.2%
Gongu Vellalar	BC	4.7%	12.4%	6.2%	6.2%	6.2%	3.7%	4.4%		2.2%		1.9%	47.9%
Krumba Gound	BC	6.8%											6.8%
Pala Vellala Gound	BC				0.2%								0.2%
Mariatha Gound	BC										1.9%		1.9%
Keera Kara Gound	BC					0.2%							0.2%
Chettier	BC						0.2%						0.2%
Naidu	BC						0.1%						0.1%
Asari	BC				0.2%	0.3%							0.5%
Total		19.0%	19.1%	15.5%	14.7%	12.0%	5.3%	4.5%	3.9%	2.2%	2.0%	1.9%	100.0%

		TN4		
		V1	V2	Total
Matharis/ Arunt	SC	23.0%	3.1%	26.1%
Parayar	SC	1.7%	0.0%	1.7%
Pallar	SC	0.2%	0.0%	0.2%
Malassar	ST	1.6%	0.5%	2.1%
Vanyar	MBC	1.6%	1.6%	3.1%
Andi Pandaram	MBC	0.5%	0.1%	0.6%
Boyar	MBC	5.2%	0.0%	5.2%
Navithar	MBC	1.0%	0.3%	1.4%
Dhobi	MBC	0.3%	0.4%	0.7%
GVG (Gongu V	BC	39.7%	6.3%	46.0%
Naidu	BC	0.5%	0.0%	0.5%
Thevar	BC	3.1%	0.0%	3.1%
Udayar	BC	0.3%	0.5%	0.8%
Asari	BC	1.0%	0.0%	1.0%
Telugu Chettie	BC	0.0%	1.0%	1.0%
Devanga Chett	BC	6.3%	0.0%	6.3%
Total		86.1%	13.9%	100.0%

		TN5									Total
		V1	V2	V3	V4	V5	V6	V7	V8	V9	
Chakriya	SC			0.9%						2.1%	3.1%
Thevar	MBC	2.0%	12.2%	5.3%			5.9%		2.7%		28.1%
Muslim	BC	28.5%									28.5%
Muthurayar	BC								1.9%		1.9%
Asari	BC	4.0%		0.2%							4.3%
Yadavar	BC		5.3%								5.3%
Chettier	BC			0.2%							0.2%
Agamudayar	Servaika	1.2%			8.1%	8.1%					17.4%
Nadar		0.9%					0.2%	6.2%			7.2%
Vellalar	Others	4.1%									4.1%
Reddiyar	Others						0.1%				0.1%
		40.6%	17.4%	6.6%	8.1%	8.1%	6.2%	6.2%	4.6%	2.1%	100.0%

		TN6			Total
		V1	V2	V3	
Chakriya	SC	6.1%			6.1%
Pallar	SC	6.9%		4.1%	11.0%
Arundathiyar	SC			15.3%	15.3%
Yadavar	BC	0.6%		24.4%	25.1%
Thevar	BC	0.6%		4.1%	4.7%
Naidu	BC	1.8%		0.2%	2.0%
Udayar	BC		20.4%		20.4%
Asari	BC		0.2%	1.0%	1.2%
Vannam	MBC		0.2%	0.8%	1.0%
Muslim	Others			12.2%	12.2%
Nadar		1.0%			1.0%
Total		17.1%	20.8%	62.1%	100.0%

had limited access to the Gram Sabha meetings. One of the major role of the Gram Sabha is that it approves the list of beneficiaries of government schemes for poverty reduction or employment generation. The Gram Sabha is supposed to be composed of all the electorate within the panchayat but due to its practical role in selecting the beneficiaries, most of the population existing below poverty line (BPL) are required to attend. However, some of SC and ST respondents, many of whom comes under the category of BPL, had never heard of the Gram Sabha, and many of those who knew about it thought or were told that it was only for upper caste people or men but not for lower caste people or for women. Many SC and ST respondents claimed that there was no advanced notice or invitation, while most upper caste respondents knew about the meetings. In addition, villagers with lower income say that they do not have time to attend the meetings since they have to work for their livelihood during that period. As discussed earlier, the Gram Sabha meeting is also supposed to be an occasion to open the accounts to the public for the objective of a Social Audit. However, the panchayat secretary of MP3, who belongs to SC said:

'I understand the idea of Social Audit. I too think it's a good thing. But the reality in this village is that *Dhakar* people [the dominant caste in the village] use the occasion of Gram Sabha to criticise each and everything of what the president says and laugh at the president, who is an illiterate *Chamar* [SC] woman. In such circumstances, how can you expect it to work?'²⁸

In such an environment, it is not possible to conduct social audit as it is projected in the Act. Even if it were conducted, it would not be effective without any format to follow or any administrative knowledge about the activities or account management for Gram Sabha and panchayat.

However, as in the case of the two high trust panchayats, if the population of the lower castes accounts for the majority, majority rule in Gram Sabha may work in favour

²⁸ Interview with a panchayat secretary of MP3, conducted in January 2005. *Dhakar* constitutes about 90% of the population in this village. The president's seat in this village panchayat is reserved for a SC woman.

of such lower castes. In such cases, even the upper caste secretary has to work under the supervision of panchayat and Gram Sabha which are dominated by lower castes. In fact, the Gram Sabha in MP1 appears to be functioning better than other panchayat. Those who answered in the affirmative that they attended the Gram Sabha meetings ‘regularly’ or ‘sometimes’ account for 84% – the highest among all the studied panchayats including those in Tamil Nadu. One young female respondent whose father is a public servant frankly said ‘none of our family members attends the Gram Sabha because it is meant only for poor people to get some jobs etc. We APL (above poverty line) people have nothing to do with it’.²⁹ Although she apparently misunderstands the principle of Gram Sabha, nevertheless she candidly captures the essence of how the Gram Sabha meetings are operated in a village where the majority is the *Gond* tribe belonging to ST. In MP1, while not many respondents could recognise what the social audit was about, at least the minimum function of selecting beneficiaries for government schemes targeted at SC and ST appeared to be in place.³⁰ This may be related to the high level of trust to the panchayat observed in MP1.

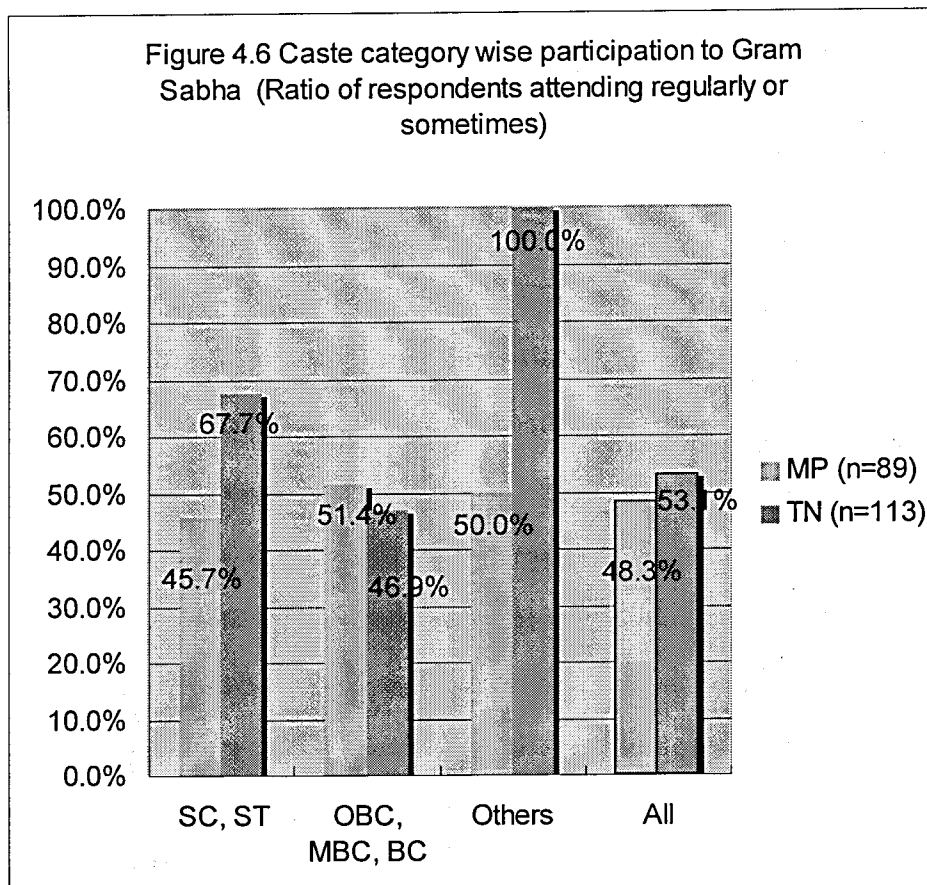
On the other hand in Tamil Nadu, there seems to be less correlation between the existence of dominant caste and the level of trust. In all the panchayats, there are non-SC/non-ST dominant castes, namely, *Vanniya* (BC) in TN1, *Gongu Vellallar Gounder* (BC) in TN2, TN3 and TN4, and to a lesser extent, *Thevar* (MBC) in TN5 and *Yadavar* (BC) in TN6. Especially *Vanniya*, *Gongu Vellallar Gounder* and *Thevar* are known to be both politically and economically influential landed elites in Tamil countryside. Since the studied panchayats did not have reservation for the president’s seats, the posts of president and secretary are all occupied either by dominant castes or

²⁹ Interview with one villager, February 7, 2006, Betul, Madhya Pradesh

³⁰ Schemes such as SGRY provides temporary employment for below poverty line (BPL) population through financing construction projects for rural infrastructure such as village roads, culverts and stop dams within the panchayat. The panchayat makes the list of beneficiaries, which has to be passed in the Gram Sabha meetings. The same process can be applied to IAY, housing scheme of the central government equally targeted BPL population.

by powerful upper castes. Despite this, the attendance of lower caste people to the Gram Sabha meetings is not as low as in Madhya Pradesh. In Tamil Nadu, the SC and ST respondents who answered that they attended Gram Sabha 'regularly' or 'sometimes' account for 67.7% while the same figure for Madhya Pradesh is 45.7% (Figure 4.6). If we take into account the fact that the figure 45.7% for SC and ST in Madhya Pradesh includes those in the panchayats where they are the majority and the same figure 67.7% for Tamil Nadu represents only those who are a minority in their panchayat, the actual difference can be larger than what it seems. Regarding the reasons for not attending the meeting, a small number of SC answered that they were not invited as in the case of Madhya Pradesh. However, more people attributed this absence to the fact that there were factional skirmishes over the allocation of developmental resources during the past Gram Sabhas, which they wanted to avoid. This is more applicable to villagers belonging to the middle rank caste, whose attendance rate (46.9%) is lower than their Madhya Pradesh counterparts (51.4%). In any case, it appears that Gram Sabha meetings are at least functioning as an occasion for making decisions on resource allocation with the participation of actual beneficiaries, that is, the SC and ST.

The fact that the dominant caste does not necessarily exclude lower castes from the decision making process for resource allocation contrasts sharply with the situation in Madhya Pradesh. Unlike in the cases of Madhya Pradesh, the supremacy of the dominant caste can somehow coexist with high level of trust towards panchayats in Tamil Nadu. It has to be clarified here that it is not the case that there are less caste related conflicts in Tamil Nadu. Some of the most vindictive murder cases among different castes have taken place in several parts of Tamil Nadu. Fortunately, such violent incidents were not reported from the studied panchayats, but still, preferential

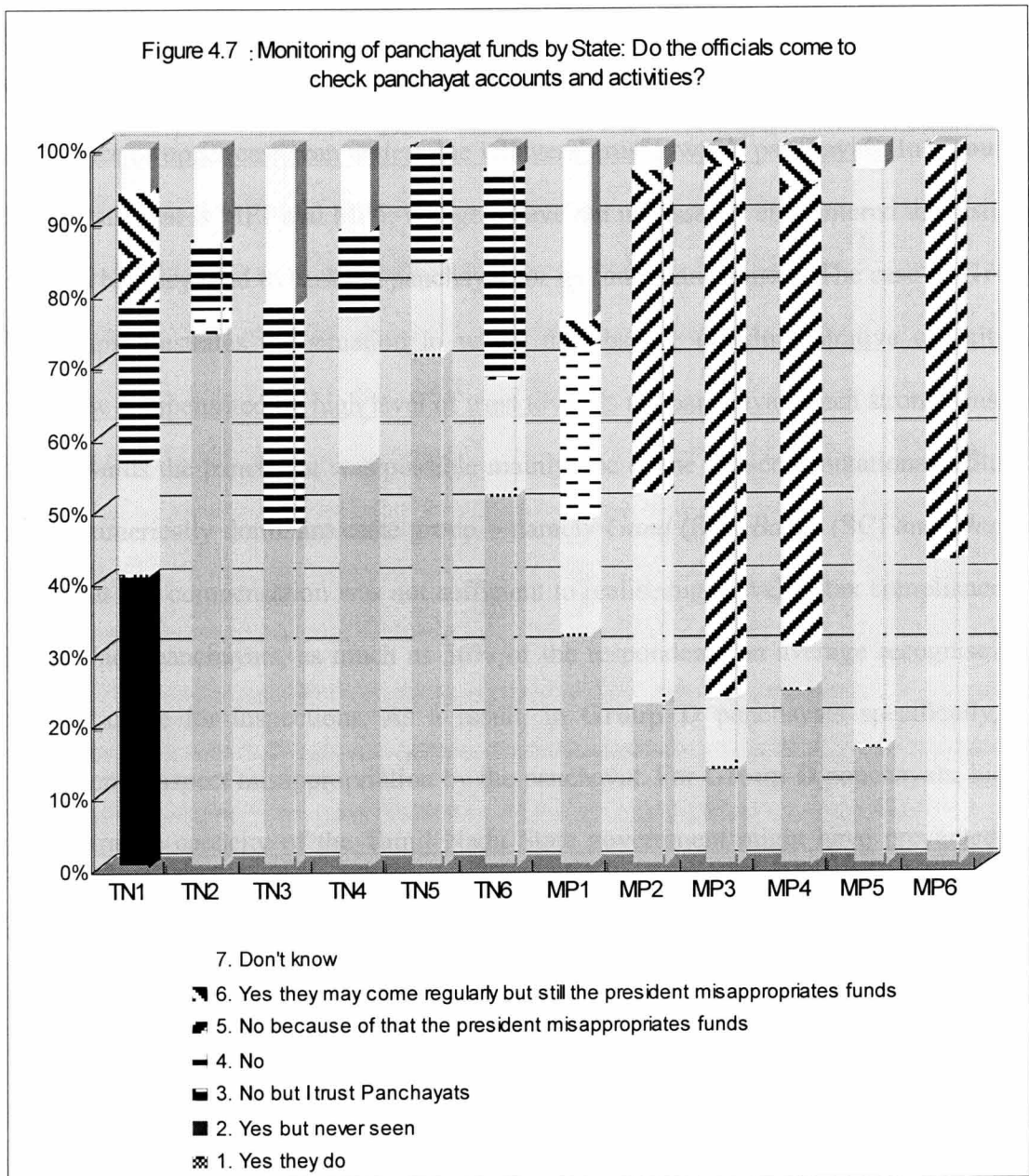


allocation of resources by the dominant caste was often pointed out by the villagers.³¹ Then what can explain this high level of trust in Tamil Nadu panchayats despite the existing dominance of upper caste?

The answer might again be found in administrative capacity of the State government. Especially the monitoring activities of the local administration play a crucial role in securing a sense of fairness and equity. Asked whether officials come for inspecting the panchayat, the number of respondents who answered yes is generally higher in Tamil Nadu than in Madhya Pradesh (Figure 4.7). Especially in those panchayats where dominant castes exist, that is, **Group B** in Madhya Pradesh, the

³¹ For instance, in all the panchayats, the post of presidents has been continuously dominated by the dominant caste since 1965 before the reservation policy was first introduced in 1996. These leaders used to enjoy almost exclusive access to government resources with less vigilance of the fellow villagers prior to the 73rd Constitutional Amendment.

Figure 4.7 : Monitoring of panchayat funds by State: Do the officials come to check panchayat accounts and activities?



maximum number of respondents answered that ‘officials do not come, because of which, the panchayat president misappropriates funds.’ It may be possible to speculate that the kind of caste based conflict and lack of trust towards the panchayat observed in the **Group B** panchayats might have been possible to be avoided if only administrative capacity had been sufficient for monitoring and regulating the panchayats. The case of **Group B**, namely, the four panchayats in Madhya Pradesh except for MP1 and MP5

may explain the situation in which in the absence of administrative capability, the dominance of upper caste can undermine villagers' trust towards panchayats. In **Group A** panchayats, that is MP1 and MP5, villagers have not necessarily encountered the visits of officials but they tend to trust the panchayat for its fund management. The case of **Group A** perhaps illustrates the situation in which the absence of administrative capacity is somehow compensated by high level of trust towards the panchayat. Such strong sense of trust towards the panchayat was possible mainly due to the non-confrontational attitudes of the numerically dominant caste group – namely *Gond* (ST), *Ballai* (SC) and *Chamar* (SC). But this compensation was not sufficient to realise high level of tax compliance. In Tamil Nadu panchayats, as much as 56% of the respondents on average recognise that officials come for inspections. As a result, in **Group D** panchayats specifically, no respondents suspect misappropriation by the panchayat. For **Group D** panchayats, higher administrative capacity of the Tamil Nadu State government might have prevented the caste factor from undermining trust towards panchayats.

If this is so, why is the case of **Group C**, that is, TN1 different from other **Group D** panchayats? While TN1 should also have the benefit of having strict vigilance by the State government, only villagers in TN1, among all other Tamil panchayats, suspect some sort of malpractice within the panchayat (Figure 4.7). If the proportion of the dominant caste is taken into consideration, it can be found that TN1, the only panchayat with low level of tax compliance in Tamil Nadu, has an extraordinary characteristic. The dominant caste *Vanniya* occupies exceptionally high proportion within the panchayat (93.0%) and, in fact, is the largest caste in each village comprising the panchayat. This might be related to the fact that the 'traditional caste panchayat' still functions in this panchayat area. Although gradually losing power and influence, the original caste panchayat still plays a role in some parts of the country in making major decisions especially in the area of law

and order.³² The caste panchayat consists of caste leaders, among which the leader from the dominant caste is the most influential. This traditional caste panchayat is distinguished from the 'government' panchayat.

In TN1, many villagers mentioned about the unwritten arrangement made by this traditional panchayat with regard to the 'bidding' for the office of president in the 2001 elections. Due to conflicts witnessed over the post of president in the 1996 elections, the traditional leaders collectively decided to sell the office of president for the price of Rs. 180,000. The same arrangement was done for the office of vice president for Rs. 80,000 and for the office of sub-district (union) panchayat member for Rs. 140,000, and each ward member for Rs. 5,000. Such cases are sometimes reported from other States as well, but TN1 was the only panchayat that such arrangement was widely recognised among villagers. The current president obviously paid the required amount to the traditional panchayat to be elected unopposed and the money was distributed to each village according to the population. Most villagers have negative feeling about this incident, since it is not difficult to imagine that the panchayat president will try to recover the amount she paid through misappropriation during the five years of her tenure. It is quite reasonable that villagers in TN1 trust the panchayats only 'to some extent' but not 'very much' because of such arrangement.³³ Of course, the thorough process of monitoring activities by the State government explained earlier is applied to this panchayat too. However, unless apparent misappropriation appears on the official accounts or unless the

³² This is related to the fact that the original role of such 'traditional caste panchayat' was to maintain social order within the village. Even now, there often comes up on newspaper the cases in which the caste panchayat made an extreme judgement such as ostracism against the case such as adultery. Where such caste panchayat exists, the official panchayats (which this thesis has been dealing with) are called '*sarkari* (government)' panchayat to be distinguished from the former.

³³ In other words, however, villagers nevertheless trust the panchayat 'to some extent'. Surprisingly, there are some villagers who even endorse this arrangement. One such villager in a distant village told that 'it [the arrangement made by the caste panchayat] at least guarantees the "equal share" among the villages consisting this panchayat' while sitting on a stage in front of the small temple structure. She pointed out that the stage was built 'thanks to the share' from the bidding. Although obviously illegal, the system is supported by a small number of people who believe that they will not have any benefits otherwise.

official in charge is persistent in following the flow of funds, some sort of irregularity is possible. The EO(P) of this block, the lowest rank of the State administration in charge of the panchayat administration, did not openly acknowledge about such arrangement made in TN1. Instead, the EO(P) kept asking whether somehow the researcher would report anything to the upper level of the State administration. The EO(P) emphasised 'I was transferred only three months ago to this block and this is my first appointment as an EO(P)'. It might be possible to say that in this case, the influence and networking power of traditional elites in TN1 have exceeded the administrative capacity of the State government.

Unless there is such extremely strong supremacy of the dominant caste and intricate arrangement made by it, the regular inspections and reports to the upper level of administration can prevent concentration of resources to a certain extent. Since many villagers in Tamil Nadu are aware that the officials come to check the activities of panchayats, they have reasons to believe the panchayat is not entirely dominated by the dominant caste. The implication is that if only a strong administrative capacity is demonstrated in MP1 and MP5 or if only dominance of caste panchayat in TN1 can be rightly controlled by the State administration or the democratic 'government' panchayat, these panchayats might have a better chance to improve the level of tax compliance.

4.7 Analysis

If, as Levi and Stoker argue, attributes of trustworthiness are 'a commitment to act in the interests of the truster' and 'competence in the domain over which trust is being given' (2000: 476), the government of Tamil Nadu certainly demonstrates them. Compilation of detailed data and regular inspection activities are indication of commitment and competence of the State government. While the above described

activities of the Tamil Nadu State government may tend to be less visible outside the panchayat authority, some activities are more visible to villagers. One such example is the newspaper notices for public auctions of seized property. Tamil Nadu Panchayat Act provides that the house tax is the first charge upon the house and the movable property (Article 172 (2)). In the case of delinquency in the house tax payment, the last resort to be taken by the panchayats is the execution of the property. During the researcher's field visit, such cases were not observed in the studied panchayats, but such notices of public auction do come up in the local newspaper. BDOs admitted that such coercive actions require legal expertise and hence, are normally taken by the initiative of the local administration. Thus, the State government of Tamil Nadu demonstrates its commitment by compiling data on and by regularly supervising panchayat's activities. Such actions as well as the example of public notices may lead to enhancing perception about the competence of the State government to enforce laws in a fair manner.

While in Madhya Pradesh, the State government has much less interaction with panchayats and it does not demonstrate any commitment with regard to the tax collection of panchayats. The interviews with officials in charge reveal the lack of commitment at every level of the government. The State level officials simply presume that tax collection itself would be almost impossible for any panchayat as the panchayat has become 'too political' disliking imposing any financial duties to the villagers. District level officials claim it is the sheer incapability of panchayat secretaries as they are not 'professional' in managing accounts. They also assert that the panchayat presidents would not like inspection or guidance by officials as they tend to see such activities as 'intervention'. Block level officials complain that efforts made by the third SFC to compile data with regard to the tax collection of panchayats is just 'a waste of time and manpower' as no positive figure would come out of such survey. They are fully aware that they are the ones who have to 'make' such figures with panchayat secretaries.

Thus, the State administration basically stays away from most activities of panchayats. As a result, panchayats in Madhya Pradesh might maintain independent position vis-à-vis local administration, while their function as local self-government including accounts management fails. The lack of commitment is apparent in the case of Madhya Pradesh.

To summarise, the commitment and competence demonstrated by Tamil Nadu State government, through gradually establishing reputation and credibility of the government in the long history of local governance have enhanced trustworthiness of the government. The State government of Tamil Nadu successfully translated its administrative capacity into trustworthiness. Interviews within panchayats revealed some sort of mutual consideration or empathy between the panchayat authority, namely, the panchayat president and secretary and the villagers. Explaining the fellow villagers about their helplessness in front of the strict State administration, the panchayat authority does not have to lose their face within the community even if they have to force payment to the villagers. Villagers often express their understanding towards the panchayat authority and claim that the panchayat authority has no other option but to increase tax collection. This mutual understanding between the two parties supported by the trustworthiness of the State government helped increase tax compliance.

Before concluding, let us look at another significant consequences of different level of administrative capacity of the State governments. That is, the apparent difference in the per capita 'own revenue' of panchayat. The official figures in the Twelfth Finance Commission (TFC) Report (GOI 2004b: 450, Annexure 8.13) suggest three tier PRI in Madhya Pradesh has nearly double amount of 'own revenue' of that of Tamil Nadu (Table 4.10). The actual data collected from 12 panchayats in two States proved otherwise. While the average 'own revenue' of Tamil Nadu panchayats is not far

Table 4.10: Difference in data for own revenue of PRI

(Rs.)

	TFC data		Field data	
	Own revenue of PRIs for 2002-03	per capita	Average own revenue of studied VPs for 2003-04	per capita
Madhya Pradesh	1,748,100,000	39.4	2867.5	1.5
Tamil Nadu	654,400,000	18.7	98882.2	28.6

Source: TFC data: (GOI 2004b: 450, Annexure 8.13), Fieldwork 2004-05

from the figure in TFC report and even higher than that, the same for Madhya Pradesh panchayats is Rs. 1.5 and far from the figure in TFC report, which is Rs. 39.4. Average own revenue of Tamil Nadu panchayats under study is nearly twenty times higher than that of Madhya Pradesh. The reason seems to lie not only in the low level of tax collection by the panchayats but also in the failing devolution of assigned tax which the State government had promised to PRI.

Take land revenue for example. The second SFC of Madhya Pradesh recommended devolution of Rs. 482.1 million (in the year 2001-02) as net proceeds of land revenue to PRI. This amounts to 16% of the total devolution from the State government to PRI. State government accepted this recommendation and announced the devolution of land revenue to PRI. Land revenue is collected by *tehsildars* or revenue officers at sub-district level under the supervision of the District Collector and accumulated at the district treasury. Land revenue is then supposed to be distributed from the district treasury to each panchayat as assigned revenue. However, no accounts in the panchayats under this study recorded such revenue or any other assigned revenue such as Stamp Duty as projected in the SFC report. In this regard, one official at the district level admitted the land revenue has been kept in the treasury of the district administration and despite his repeated questioning as a senior officer in the Revenue Department, it had

never been distributed to PRI.³⁴ When enquired about such incident, an experienced State level officer seemed totally unaware of such cases and hence was shocked at the ground reality. There is no monitoring mechanism to ensure that the funds entitled to PRI actually reach them. Moreover, since there is no data with regard to the actual amount of panchayat revenue, the State administration of Madhya Pradesh reported to TFC the *projected* amount including the land revenue, which never actually reached panchayats under study.³⁵ As a result, there is a huge gap between the figures in TFC report and the actual revenue of panchayats.

In the case of Tamil Nadu, the allocation status of such assigned taxes is included in the monthly reports to Chennai, and hence, such large scale abnormality is difficult to take place. While the State administration in Madhya Pradesh is competent in collecting land revenue, it lacks the commitment to ensure the financial devolution. This lack of commitment ultimately results in deficiency of financial resources of panchayats, which prevents them from becoming financially viable.

4.8 Summary

Administrative capacity alone could only partially explain the general tendency of the low level of house tax revenue in Madhya Pradesh panchayats and high level of collection ratio in Tamil Nadu. There are, however, marginal differences even among the six panchayats of Madhya Pradesh as well as among those of Tamil Nadu. These

³⁴ Interview with one IAS officer on condition of anonymity, February 8, 2006, Madhya Pradesh

³⁵ TFC required the data for 'own revenue' of PRIs in all the States in order to assess the 'revenue effort' which was given 20% weight in the criteria for allocation of TFC grants to PRIs. Within the 20%, 10% was linked to the own revenue of States and another 10% to GSDP (Gross State Domestic Product). Madhya Pradesh marked the first in the share with regards to own revenue of States and the third in the share with regards to GSDP, following Maharashtra and Kerala. Other criteria were population (40%), geographical area (10%), distance from highest per capita income (20%) and index of deprivation (10%). As a result, the total amount of allocation to PRIs in Madhya Pradesh came third after Uttar Pradesh and Maharashtra. Although the evidence is limited to a few districts, that the reported figure was far from reality at least in 6 selected panchayats might be an embarrassing fact for the government of Madhya Pradesh.

differences could not be explained even if the factor of fiscal exchange was incorporated since there seemed to be little correlation between the amount of services received and the level of tax compliance. While the administrative capacity itself cannot fully explain the different level of tax compliance in the panchayats in the two States, the level of socio-economic development also failed to be linked with the level of tax compliance. It was found that the more economically advanced area does not necessarily have higher level of tax compliance.

On the other hand, the three factors in our hypothesis, namely, a) the administrative capacity of the State government, b) trustworthiness of the State government and c) trustworthiness of the panchayat better explain how tax compliance is influenced. Both the panchayats and the State government in Tamil Nadu are generally trusted by the villagers while in Madhya Pradesh, the trust in these two institutions is much lower than in Tamil Nadu. As for trust in the panchayats, only two panchayats, namely MP1 and MP5 are trusted highly by the villagers but the State government is generally not trusted in all the panchayats. The difference between the two groups can be explained by the existence and the absence of administrative capacity demonstrated by the State government.

Some exceptional cases, such as high trust in the panchayats in MP1 and MP5, and not so high trust in both the panchayat and the State government in TN1 can be explained by incorporating the caste factor. The high trust in the panchayats in MP1 and MP5 seems to be attributed primarily to the non-confrontational attitudes of the numerically strongest caste group in each panchayat area. In a sense, absence of administrative capacity was compensated by high level of trust towards the panchayat but it was not sufficient to realise tax compliance. The reverse is true for TN1. Although TN1 shares the benefit of higher level of administrative capacity of the Tamil Nadu government, the well developed network and influence of the traditional caste panchayat

works to undermine such benefits. The bidding for the offices of the panchayat president, vice-president and so on arranged by the traditional caste panchayat had planted a seed of doubt amongst most villagers. This might be the case in which the influence and networking power of traditional elites in TN1 have exceeded the administrative capacity of the State government.

However, it would be possible to conclude in general, that in the absence of administrative capability, the dominance of upper caste can undermine villagers' trust towards panchayats and the State government. Contrary, higher administrative capacity of the Tamil Nadu State government might have prevented the caste factor from undermining trust towards the panchayats and the State government. In this sense, administrative capacity of the Tamil Nadu State government has generally succeeded in generating trustworthiness both for itself and for the panchayats with which it works closely in panchayat taxation.

Unless there is an extremely strong supremacy of the dominant caste and intricate arrangement made by it, the regular inspections and reports to the upper level of administration can prevent a monopoly of resources to a certain extent. Since many villagers in Tamil Nadu are aware that the officials come to check the activities of panchayats, they have reasons to believe the panchayat is not entirely controlled by the dominant caste. The implication is that if only a strong administrative capacity is demonstrated in MP1 and MP5 or if only dominance of caste panchayat in TN1 can be rightly controlled by the State administration or the democratic 'government' panchayat, these panchayats might have a better chance to improve the level of tax compliance.

In the end, it should be restated that administrative capacity illustrated in this chapter did not only generate trustworthiness and eventually increase tax compliance. The significant by-product of administrative capacity is the guaranteed revenue flows to the panchayats. Thus financial devolution in Madhya Pradesh fails in its implementation

and the actual amount available for each panchayat tended to be much smaller than what was envisaged in the Act. In Tamil Nadu, on the contrary, the amount of such revenues is checked through the monthly report of panchayat finance and the information is shared at all levels of the administration. Although it may seem to have less autonomy, the Tamil Nadu panchayats enjoy the financial autonomy with both the own tax revenue as well as the assigned revenues, which was ensured by the State administration. The Madhya Pradesh panchayats may have been designed to be more 'participatory' and 'autonomous', but the results are that the panchayats do not have enough financial resources as envisaged in the Panchayat Act. The Madhya Pradesh panchayats do not have to disclose their accounts information more than once a year let alone guaranteeing equity in resource allocation.

Conclusion

History of decentralisation policies in India provides us some perspectives to understand the changing mode of administration and rule. In a sense, decentralisation has been the process in which the state increases the level of accommodation of rural population. The administration and rule of British India did not go beyond the territory of each *zamindars* whom the revenue administration depended on. As a regime of revenue collection, district administration developed around District Collector left most of the countryside untouched. Decentralisation policy of the British India was simply an attempt to extract additional resources in the name of local self-government. Post-independence administration and rule, on the other hand, embodied typical features of developmental state in which the central government held high level of control over economic resources. The regime of development necessarily required reaching the rural population so as to control the agricultural production. It was the first attempt by the state to actively intervene in the rural society. The history of Community Development programme, however, demonstrated the tough resistance of the political elites in rural India against state's effort to accommodate them. Countryside once again failed to be organically incorporated in the democratic state while the district administration became much closer to the rural population with the newly set up development block.

After the following stagnation for almost two decades, decentralisation once again came up in the agenda of the central government in the late 1980s. The systematic change both economic and political that occurred in the beginning of the 1990s had gradually been taking shape under the Prime Ministership of Rajiv Gandhi who came into power in 1984. However, there was a notable difference in the policy orientation between that in the 1980s and the 1990s. Decentralisation policy of Rajiv Gandhi government in the 1980s was strongly affected by the long accumulated tension between the Centre and the States. It was an attempt to gain direct control over the

countryside in order to undermine the political leadership at the State level. The political as well as economic change since the early 1990s, however, has converted India from 'interventionist state' into 'regulatory state' (Rudolph and Rudolph 2001b). The declined fiscal interdependency between the Centre and States, increased emphasis on fiscal deficit reduction, and increased power and presence of regional parties in the national politics, all have dispersed the long accumulated tension between the Centre and States. Economic imperatives of liberalisation as well as transformation of the political system have, in a sense, set the condition for the comprehensive decentralisation reform in the 1990s. The 73rd Constitutional Amendment materialised in such changed environment in politics and economy.

What this constitutional change has brought about differs, however, in each State. Historical development of the PRI system in the two States examined in Chapter 3 suggests that the differences in the development of PRI may have a significant impact on the current performances of panchayats. Chapter 3 revealed that the State of Tamil Nadu had from the start of the last century exhibited its high ability in incorporating PRI into administrative machinery through inspection activities. In contrast with the novelty of its recent decentralisation reforms, the State government of Madhya Pradesh historically did not possess administrative capacity in dealing with PRI. Moreover, whatever capacity existed was further undermined by the policy changes occurred after the 73rd Constitutional Amendment. Unlike the local administration of Tamil Nadu which is increasingly burdened with the responsibility of inspecting and administering PRI, the local administration of Madhya Pradesh was discouraged to demonstrate whatever expertise and capacity it held in PRI administration.

As a result of the data analysis and case study, the factors that led to high level of tax compliance appeared to lie in the multiple relationships among a) administrative capacity of the State government, b) trustworthiness of the State government and c)

trustworthiness of the panchayat. While examining the tax administration, it was found that the administrative capacity of the State government of Tamil Nadu enabled the collaboration between the State government and the panchayats. This has perhaps generated trustworthiness of both the State government and the panchayats in Tamil Nadu. Thus, trustworthiness generated by the former works to guarantee the credibility of the tax administration of the latter.

By examining the assumption of fiscal exchange, the significance of trust in panchayat taxation has become more prominent. It was found that the decision of Tamil Nadu taxpayers to pay house tax is not specifically based on information about the actual performance of panchayats. The high level of tax compliance in Tamil Nadu, coinciding with low level of awareness with regard to the activities of panchayat, might indicate the significance of intangible factors such as trustworthiness of the government. Villagers in Tamil Nadu perhaps hold some sort of perception that the state institutions have so far acted reasonably. A kind of mutual understanding between the panchayat authority and villagers is one thing that indicates such perception. As discussed earlier, by asserting their helplessness in front of the strict State administration, the panchayat authority does not have to lose their face within the community even if they have to force payment to the villagers. Villagers in return, express their understanding towards the panchayat authority and claim that the panchayat authority has no other option but to increase tax collection. This kind of mutual understanding between the two parties would be very difficult to imagine if the panchayat authority or the State administration had acted in an extremely untrustworthy or unfair manner in the past. The differences in history examined in Chapter 3, in which the relationship between the local administration and the local self-government has developed in each State, will also support this significance of historically established reputation for trustworthiness. The close interaction between the local administration and the local self-government that has

endured in Tamil Nadu for more than a century has perhaps established the reputation for the trustworthiness of the state. When making decisions to pay or not to pay the taxes, such intangible perception therefore appears to be more significant for taxpayers in Tamil Nadu than tangible benefits provided by the panchayat. Thus in Tamil Nadu, for panchayats in general, voluntary compliance to house tax has become the norm and the panchayat authority does not face much difficulty in collecting taxes.

However, if attention is directed exclusively to the cases of Madhya Pradesh, such voluntary compliance appears to be difficult to realise. Instead, in the absence of administrative capacity demonstrated by the State government, Madhya Pradesh panchayats seem to be facing this caste factor more directly than their counterparts in Tamil Nadu. Only in the cases of Madhya Pradesh panchayats, the caste configuration within panchayats seemed to affect the level of trust in the panchayats. As in the case of MP3, the panchayat and the Gram Sabha tend to be controlled by the dominant caste. As a result, participation of the lower caste population to the Gram Sabha meeting is limited. Not surprisingly, villagers who belong to lower castes will not expect the taxes they are required to pay are going to be used for their benefits or managed in a fair way especially in the absence of the frequent inspections by the State government. In a sense, the caste configuration within the panchayat rather than the level of trust might define the low level of tax compliance in Madhya Pradesh. Just as in the rest of the country, caste related conflicts certainly exist in Tamil Nadu. However, such factors as pointed out earlier does not seem to affect the level of tax compliance in or the level of trust towards the studied panchayats in Tamil Nadu. This is perhaps due to the presence of the State administration collaborating with the panchayat administration and thereby demonstrating its ability to secure administrative procedures that appear to be fair. Thus, there appears to be a strong case to support the significance of the three factors (a, b, c) as being verified.

Implications to further study 1: Administrative capacity and corruption

In the process of verifying the hypothesis, there are several points that were deliberately not elaborated. One of them is the argument on corruption. While the compilation of data is regarded as one indicator to show the level of administrative capacity, it might be possible that the accumulated data itself does not necessarily prove the actual fund flows. Considering the abundant criticism on corruption directed against the government officials, it may, in fact, be unrealistic to believe that all this is actually implemented or allocated as stated in the account books. As ex-Chief Minister Digvijay Singh anticipated, there is no guarantee either that the officials in charge of inspection and audit do not abuse their position to encourage malpractice. The researcher was told during the interview with panchayat secretaries that in most transaction of funds or whenever officials come to check the accounts or activities, officials asked for some bribe, called 'percentage'; the rate of which was almost fixed unofficially but as a hidden norm.

One experienced secretary told us an anecdote in the form of a joke that one young, newly joined panchayat secretary recorded all the 'percentages' asked by officials in the account books of the panchayat, not knowing that was 'unofficial percentage'. This secretary was later asked to delete and revise those parts by the very officials who audited the accounts.¹ It is certainly a form of corruption and there is no reason to justify such transactions. However, what this thesis attempted to stress is the fact that this percentage has perhaps been institutionalised to a certain extent in the course of the long history of interaction between the local administration and the panchayats. Of course, many panchayat secretaries are increasingly aware that such 'percentages'

¹ Interview with a panchayat secretary on condition of anonymity, February 16, 2005, Coimbatore district, Tamil Nadu

should be abolished and many villagers are aware of such transaction. Nevertheless, they do not necessarily perceive such deal as an extraordinary or unreasonable demand from the local officials. It has to be reminded here that villagers do not trust local officials 'very much' but they trust them at least 'to some extent'. Villagers are aware of the day-to-day corruption by the individual government officials, yet, they recognise these officials to be acceptable and give more credit to their employer, the State government. Villagers in Tamil Nadu, knowing fully that individual government officials are not necessarily honest or fair, have a capacity to accept them to a certain extent and therefore extend their trust to the State government independently. The corruption cases that the villagers may daily encounter is somehow not perceived as much as it undermines their trust in the State government.

One explanation of this phenomenon in which an extraordinary amount of abuse by the lower level of officials is avoided, is, as argued, that the administrative capacity of the State government ensures vigilance by accumulating information at all levels. Another possible interpretation is that the severe competition between the two political parties, namely DMK and AIADMK, relatively limits abuse of power by either side. Even at the panchayat level, factions are often formed along party lines and in such cases, both sides carefully watches the actions by the others. Although this thesis did not extend detailed examination on this aspect of political competition at the panchayat level, it can nevertheless be interpreted as reinforcing the argument for our hypothesis.

On the other hand, in Madhya Pradesh, the former Congress government ostensibly in order to prevent corruption sought to distance the local administration from the panchayats. Whether or not the State government succeeded in achieving this objective is open to interpretation by the electorates. One orthopaedist in Bhopal, Madhya Pradesh asked the researcher: 'Do you think Panchayati Raj is a good thing at all? I have an impression that the number of patients with bad injuries has been

increasing. Many of them talk about the skirmishes or quarrels in their village over the panchayat resources. I wonder it might have been better had there been no Panchayati Raj'.² The comment like this represents the strong sentiments against decentralisation reforms by urban elites, which, along with many other factors, eventually led to the loss of the Congress party in 2003 Legislative Assembly elections. 'Decentralisation of corruption' was the brand put on Digvijay Singh's reform by the opposition BJP during the election campaign in 2003. After gaining power in the same election, the current BJP government made a series of amendments to the Panchayat Act and strengthened the monitoring activities. Although the following political turmoil has prevented the State government from taking further steps with regard to the PRI, there is a growing recognition among officials and activists over the need for building more transparency and accountability in the local administration. That will be the major part of addressing the gaps in administrative capacity currently lacking in PRI in Madhya Pradesh. By making the financial data available right from the panchayat level to the State level, such data becomes the basis of any party including officials in charge of auditing to check whether or not a certain scheme is actually being implemented or to act on remedying deficiencies. In any case, maintenance of accounts itself is one of the first definite steps to ensure transparency. In fact, it can be argued that it is such account maintenance and other accountability mechanisms enabled by administrative capacity of the State government that has generated the attributes of trustworthiness in Tamil Nadu.

Implications to further study 2: Conceptual ambiguities

This thesis is a modest attempt to explain the complications on the ground regarding with diverse performances of the panchayats. It basically has used house tax

² Interview with Dr. Mehrotra, January 31, 2004, in Bhopal, Madhya Pradesh

collection to understand the micro level working of the local administrative process in India by seeking to establish certain concepts for collecting empirical details in order to judge the administrative performances of local administrative bodies. In this model, the panchayats were not regarded merely as one of the service providers for rural development. They were considered as an integral and important pillar for local self-government, which necessarily requires to be understood in the larger context of administrative setups of the state. The model applied in this thesis tries to capture the relationship among the State administration, the panchayats, and the villagers. It also attempted to explain the ground level administrative reality, popular responses to administrative initiatives, how administrative initiatives played out.

However, there still remains a degree of conceptual ambiguity on what constitutes administrative capacity and how to measure and understand the trustworthiness of the government institution. For instance, the thesis does not clearly distinguish between the administrative capacity of the State government and that of the panchayat. In order to rightly appreciate and explain the relationship between the administration and the panchayats, this thesis instead laid an emphasis on the impact of the administrative capacity of the State government. This was to prevent the possibility of the debate about transferring administrative capacity from the State government to the panchayat; which would lead to another set of arguments that stresses the need for training and empowerment of the panchayat representatives. While such an approach is no less significant, this thesis tried to shed light on the role of the State administration, which tends to be neglected in the study of the PRI. Similarly, the process in which administrative capacity is translated into trustworthiness has not yet been cogently expressed in this thesis at all times. This thesis is more concerned with the unique relationships that can be constructed between administrative capacity and trustworthiness. While these conceptual problems are certainly open to debate, these

notions nevertheless can explain to a great extent the reasons for the sharp variations in tax collections at the ground level in the respective States. The notions of administrative capacity and trustworthiness, despite their limitations, therefore help to establish that there were in fact patterns and variations in the tax compliance of the panchayats.

Theoretical implications: Regulatory role of the state

In order to reshape this model in the future, it will be useful to consider its theoretical implications. With regard to trust, there were two findings. First, it was confirmed that in the case of tax compliance to the local self-government, trustworthiness of the government has to be considered at different levels. The cases of Group 1 (MP1, MP5) indicate that trust towards the panchayat alone is not enough to realise higher level of tax compliance to the panchayat. As in the cases of Group 4 (TN2-6), both trust towards the panchayat and the State government have to coexist in order to achieve high level of tax compliance. Thus, unless it is divided, the concept of trustworthiness could not be rightly appreciated. Second, it was also found that trustworthiness of the government leading to higher level of compliance has to be founded in the administrative capacity of the former. This is to confirm the claims of Levi and Stoker (2000), which stressed the commitment and competence of the government as necessary attributes of trustworthiness of the government. The cases of MP1 and MP5 suggested that trust alone could not lead to higher tax compliance. Thus, trustworthiness towards the panchayat and the State government can be enhanced only by developing a credible amount of administrative capacity by the State government.

In the absence of the regulatory actions by the State administration, the powers and resources of the panchayats can be highly manipulated by the dominant upper castes. To avoid this, the role of the state (in this case, the State government) is crucial in ensuring fair procedures through monitoring and in providing incentives to the panchayats. This

claim, in fact, shares a great deal of similarity with several arguments pointed out in the introduction.

The first is that of Sudha Pai (page 4n of the introduction), which related specifically to the Indian context. Pai argues that conflicts, if successfully managed, can be 'an important pillar and in fact a *builder* of democratic society (2004: 61)'. She further recognises the positive role played by the interventionist and redistributive state that functions through a number of welfare schemes in 'containing conflict between the privileged and underprivileged (*Ibid*: 62).' As the case of MP1 indicates, the government schemes, if successfully implemented through Gram Sabha, can work to mitigate the conflicts between the privileged and underprivileged by specifically directing resources to the latter. Unfortunately, such outcome is realised very rarely in Madhya Pradesh. Unless the underprivileged section becomes the majority in the community or there is some sort of regulatory framework to ensure fair procedures, such government resources will be used in a way other than what was originally envisaged.

Second and related to the first, these findings also resonate with the claims of Pranab Bardhan (page 15-16 of the introduction) who stresses the importance of strengthening the local accountability mechanisms in decentralisation programmes. He argues that the state is required to play a certain activist role in providing financial support, neutralising the power of local elites, supplying technical and professional services toward building local capacity, acting as a watchdog for service quality standards, evaluating and auditing, investing in larger infrastructure projects and so on.

Third but not least, findings of this study goes some way towards substantiating the claim of Judith Tendler (page 16 of the introduction) based on her case study of decentralisation programmes in Brazil (1997). Studying the successful reform process in Ceara, Brazil, Tendler found the key to success in the staggered type of centralised

decentralisation. The preventive health programme initiated in 1987 dramatically improved health index such as decrease of infant deaths by 36% and tripled vaccination coverage to 90%. The programme was designed in a decentralised manner forcing the provincial government to devolve its administrative powers regarding with health services to the municipalities and to the civil society groups. What Tendler found as a key to success was not what the discourse of 'participatory decentralisation' predicts, that is in short, civil society groups replacing the state's responsibility. Nor was it one linear way from the centralised governance to the decentralised. In a sense, the provincial government was initially reluctant to give away their powers. 'In the name of a program that formally decentralised some responsibility and control to municipal government, the state [provincial] government nevertheless kept control over certain crucial aspects of the program that caused mayors to initially lose a substantial opportunity to exercise patronage power in their domains (*Ibid*: 27).' While the service provision and management of overall programmes were transferred to the municipalities, 'an iron hand' of the provincial government was kept on the hiring, training and monitoring of municipal labour force. In fact, it was this merit-based hiring and training system managed by the provincial government that provided highly motivated workers essential for the programme. Tendler argues;

In trying to understand why these cases worked well, one cannot help but notice the magic that was worked by *distrust* between central [provincial, in this case] and local governments. *Distrust* induced the state to monitor the municipal features of the programs aggressively, to socialize the municipal workers to standards of excellence, to set criteria meant to prevent abuse and increase program effectiveness, and to educate citizens to keep watch. *Distrust* made the state keep for itself certain tasks that the D&P scenario normally allocates to municipal government, like the hiring of municipally based health agents, engaging in outreach to local citizens, and presiding over the meetings of municipal councils and community assemblies making decisions about local projects. ... it was precisely *because* central government was on the scene as a mistrustful outsider that the local "content" of these programs did better and expanded (*Ibid*: 149, *Italics* added except for the last one).

In agreement with Tendler, the findings of this thesis have demonstrated that Tamil

Nadu's success owes much to a kind of centralised control that the State government retained. Since in the 1930's, the Tamil Nadu government has established the monitoring system and the system of Inspector still exists even in the new era of decentralisation since 1992. Although seemingly less autonomous and less democratic, the Tamil Nadu panchayats are certainly collecting more tax, receiving more funds from the State government, implementing more developmental schemes and maintaining their assets and accounts more properly than their Madhya Pradesh counterparts.

These findings are not necessarily in line with the claim of James Manor that Tendler has carried the point too far, 'into an *unnecessarily negative judgment* on the promise of decentralization' (Manor 1999: 64, *italics added*). Manor argues that the active role played by the central government in Tendler's case study can be replaced by 'nonofficial associations'³ which can engage 'more actively with decentralised institutions and persuade citizens that local governance is not the sole territory of the elected local council' (*Ibid.*). Although he does not deny that the central government plays a certain role, he argues that it will be a supplementary one that is limited to primarily ensuring grass roots participation.

The examination of decentralisation policy in the two States presents evidence otherwise. In the official rhetoric, decentralisation reforms in Madhya Pradesh were suggested to be promoting the 'participation' of 'civil society'. The *Gram Sabha* was, therefore, extensively empowered so that every village can make decisions independently on the allocation of development funds. It was designed so that the villagers themselves could 'participate' in the process of planning, implementation and monitoring without any interference by the officials. But what we have seen in reality is

³ Needless to add, 'nonofficial associations' are necessary components of 'civil society'. With regards to the applicability of such 'western' or 'northern' notion of 'civil society' or 'association' in the Indian context, see Kaviraj (2001) and Rudolph (2000).

that this empowered *Gram Sabha* often becomes an arena for local elites to dominate. 'Empowerment' and 'participation' become a useful tool for powerful landed elites to exclude the poor and the marginalised. One of the expected advantages of these reforms of Gram Swaraj is stated as reducing the case of corruption. In order for this objective to materialise, however, the examination above suggests that equity in terms of social status may be an important prerequisite. Since this is a difficult condition to be met in rural India due to the persistent caste based conflicts, it is not surprising that many report that Gram Sabha meetings often fail to meet a quorum or committees do not function as envisaged (Behar and Kumar 2002; Behar 2003; McCarten and Vyasulu 2003).

On the contrary, the panchayati raj system in Tamil Nadu is not specifically designed to 'empower' the *Gram Sabha* or local community as in Madhya Pradesh. The *Gram Sabha* similarly tends to be dominated by the local elites. Instead, there is a strong presence of the State government in Tamil Nadu to ensure the functioning of village panchayats. This collaboration between the government and panchayats in Tamil Nadu has evolved through a long history of interaction between the two. It directly or indirectly helps village panchayats to become financially viable.

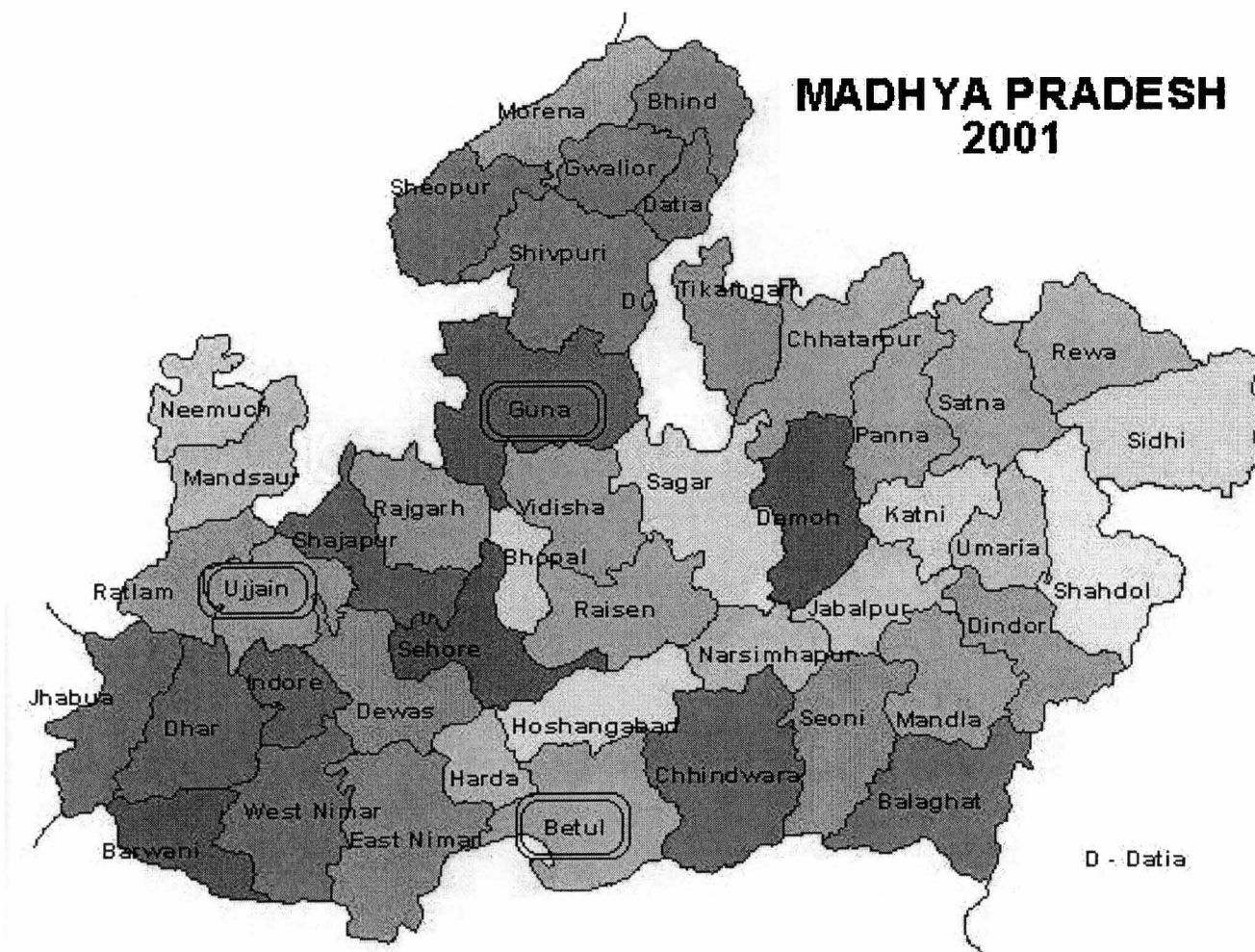
To conclude, the high level of trust towards the panchayats and the State government in Tamil Nadu functions to ensure tax enforcement as well as the financial viability of panchayats. What the cases of Tamil Nadu panchayats, however, indicate is that the high level of trust for the panchayats alone cannot bring about such functions. The emphasis should perhaps be laid on the regulatory role played by the State government. The government of Tamil Nadu has for a long time demonstrated its willingness as well as capacity to regulate the financial management of panchayats. Although it might have undermined democratic functions of the panchayats, the State

government surely prevented local elites from monopolising resources that devolved from the upper level of the government. It has also indirectly contributed to the proper flow of statutorily guaranteed resources from the State government to the panchayats. It is that such government tends to embody the attributes of trustworthiness rather than the government that distances itself from the local self-government. Decentralisation, in this sense, seems to work effectively with active regulatory role played by the centralised state in providing incentives and in ensuring fair law enforcement through monitoring and guidance.

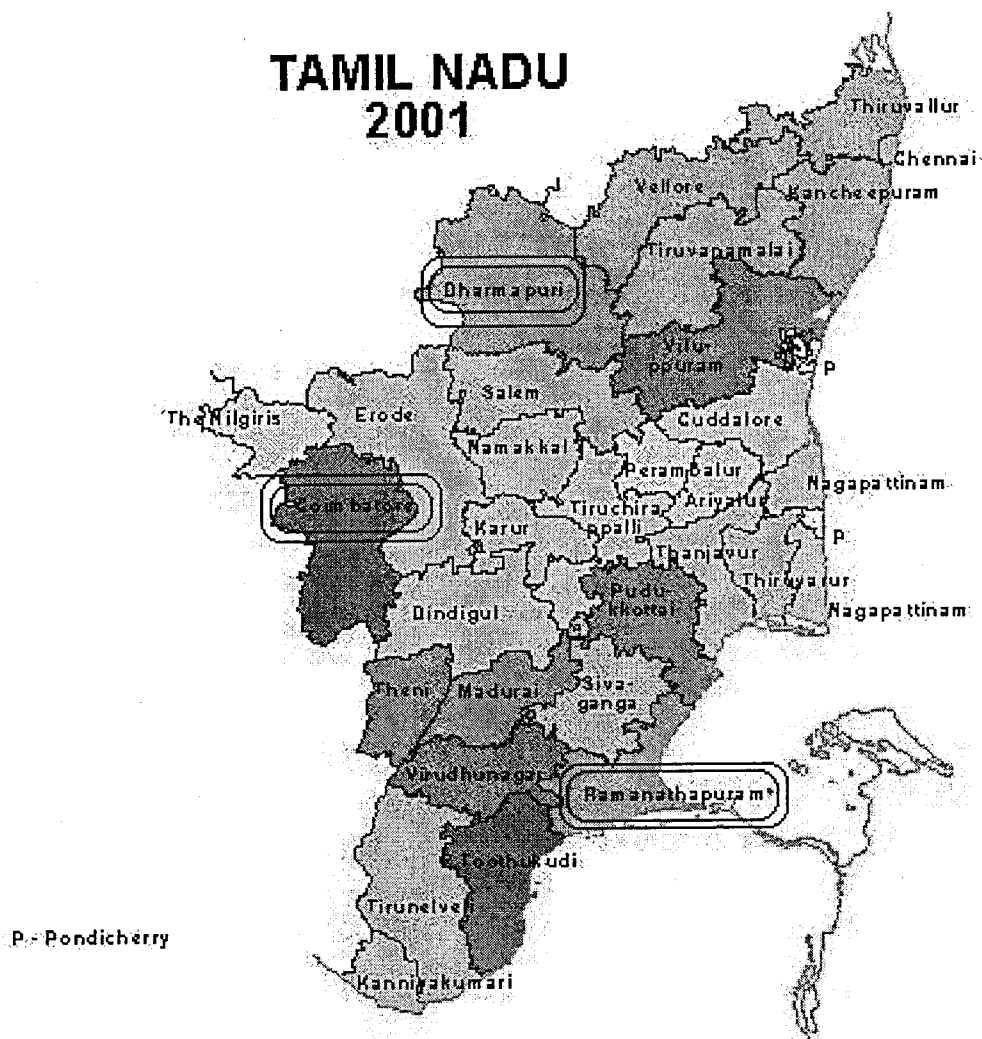
Appendix 1: Map of India



Appendix 2: Map of Madhya Pradesh



Appendix 3: Map of Tamil Nadu



Appendix 4: Questionnaire

Background

1. Age 20s / 30s / 40s / 50s / 60s
2. Sex Male / Female
3. Caste / Religion
Category: General / SC / ST / OBC / Others
Name of caste, religion: ()
4. Level of education
None / Elementary / Middle / High School / Inter / Graduate / Post graduate
5. Occupation of yourself: ()
Major occupation of the household: ()
6. Annual income of the household: ()

Questions

1. Do you read newspaper? (If yes) How often?
Yes (regularly / more than once a week / more than once a month) / No
2. Do you listen to radio? (If yes) How often?
Yes (regularly / more than once a week / more than once a month) / No
3. Are you a member of any religious or caste organisation?
Yes (name of the organization:) / No
4. Aside from caste and religious organisation, do you belong to any other associations and organisations like the cooperatives, farmers' association, trade unions, self-help groups or committees in panchayats etc.?
Yes (name of the organization:) / No
5. What do you think is most important for you to decide to whom you vote in panchayat elections?
Caste/religion of the candidate / Political party / Candidates' past career / Candidates' manifesto
6. Do you remember all the candidates in the last Village Panchayat president election? Can you name them?

Yes (how many names?) / No

7. Do you think regular elections for panchayat (since 1994) changed panchayat to work more for the people?

A great deal / somewhat / not much / not at all

8. Would you say panchayats are operated for the benefit of the entire village rather than for the benefit of a part of the village?

Very much so / Relatively yes / Relatively no / Not at all

9. How much trust do you have in Village Panchayat?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in Village based officials (teachers, anganwadi workers / Village administrative officer (TN))?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in District/block/tehsil based officials (BDO, etc)?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in NGO?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in State government?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in Central government?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in MLA (Member of legislative assembly)?

Very much / to a certain extent / not much / no trust at all

How much trust do you have in MP (Member of parliament)?

Very much / to a certain extent / not much / no trust at all

10. Do you know any activities that the panchayat did last year? If so, what?

Yes () / No

11. Did you pay any taxes/fees this fiscal year?

If so, what is the reason?

Yes ()

A) I'm always willing to pay because I trust panchayat in the way the tax is used.

B) I'm not willing to pay but I do because I know it will be managed properly.

C) I'm not willing to pay but I do only because I needed the help of panchayat (for issuing official documents etc.)

D) I'm not willing to pay but I do only because everybody does.

If not, what is the reason?

No ()

E) Because I don't know what the tax is going to be used for.

F) Because I don't trust panchayat.

G) Because nobody pays.

H) Simply because I don't have money at all, but I would pay if I can afford.

12. Do you know what social audit is?

Yes, very well / Yes but only a little / Only by name / Never heard before

13. Do you know who is the auditor in this village?

Yes (who?) / No

14. Do you know what the house tax is used for?

A) Yes, I do. ()

B) No, but I trust Gram Panchayat in the way the tax is used.

C) No, and I don't trust Gram Panchayat in the way the tax is used.

15. Do you think Gram Panchayat funds are managed properly?

- A) Yes, they are managed properly
- B) No, a part of the funds are used in favour of sarpanch or his/her people.
- C) No, most of the funds are used in favour of sarpanch or his/her people.
- D) I don't know but I trust Gram Panchayat

16. Do you think the activities of Gram Panchayat are checked properly by government officials?

- A) Yes, I know government officials come to check what Gram Panchayat is doing.
- B) Yes, I believe so but never seen them before.
- C) No, because of their absence, sarpanch and his people can do whatever they want to do.
- D) Yes, but there is no meaning as they are bribed.

17. Do you attend Gram Sabha?

- A) Yes regularly (what do they think about GS?)
- B) Yes sometimes (same as above)
- C) No (reason:)

Appendix 5

ELEVENTH SCHEDULE

(Article 243G)

1. Agriculture, including agricultural extension.
2. Land improvement, implementation of land reforms, land consolidation and soil conservation.
3. Minor irrigation, water management and watershed development.
4. Animal husbandry, dairying and poultry.
5. Fisheries.
6. Social forestry and farm forestry.
7. Minor forest produce.
8. Small scale industries, including food processing industries.
9. Khadi, village and cottage industries.
10. Rural housing.
11. Drinking water.
12. Fuel and fodder.
13. Roads, culverts, bridges, ferries, waterways and other means of communication.
14. Rural electrification, including distribution of electricity.
15. Non-conventional energy sources.
16. Poverty alleviation programme.
17. Education, including primary and secondary schools.
18. Technical training and vocational education.
19. Adult and non-formal education.
20. Libraries.
21. Cultural activities.
22. Markets and fairs.
23. Health and sanitation, including hospitals, primary health centres and dispensaries.
24. Family welfare.
25. Women and child development.
26. Social welfare, including welfare of the handicapped and mentally retarded.
27. Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.
28. Public distribution system.
29. Maintenance of community assets.

Appendix 6

Panchayat form no: 30

Monthly statements for the approval of panchayats.

Month

Declaration:

I verified the accounts and documents personally. I am certifying that all receipts and expenditures were properly brought in to the account of Panchayats.

President.
.....Panchayat

S.No	Head of the Receipts	Current month's receipts	Receipts up to current month	S.No	Head of the Expenditures	Current month's expenditure	Expenditure up to current month
1	2	3	4	1	2	3	4
	(A) Village Panchayat Fund.				(A) Village Panchayat Fund.		
1.	House Tax			1.	Salaries		
2.	Library Tax			2.	Travel allowance		
3.	Professional Tax			3.	Stationary		
4.	Other tax items			4.	Electricity - street lights		
5.	D&O Trade License fee			5.	Electricity - power pumps		
6.	Other license fee			6.	Electricity - panchayat buildings		
7.	Building and house site license fee.			7.	Maintenance of wells - implements and wages		
8.	Fine levied by Panchayats			8.	Maintenance of hand pumps		
9.	Tenancy on buildings			9.	Over head tank/ground level tanks - tools and wages		
10.	Market tenancy			10.	Maintenance of street lights - tools and wages		
11.	Tree yield/produce amount			11.	Radio and Television - tools and wages		
12.	Fishing tenancy			12.	Public sanitation - tools and wages		
13.	Other tenancies			13.	Social forests/fruit gardens/parks		
14.	Stamp duty surcharge			14.	Maintenance of panchayat tanks		
15.	Entertainment tax			15.	Recognised festival expenses		
16.	Local cess			16.	Maintenance of panchayat buildings		
17.	2 C Patta tax (Tree Tax)			17.	Maintenance of tools. Instruments, materials		
18.	Criminal act fines			18.	Maintenance of roads and culverts		
19.	Other earmarked receipts			19.	Maintenance of cremation grounds		
20.	Deposits			20.	Return of library taxes		

21	Relapsed deposits			21	Return of deposits		
22	State Finance Commission Grant (not earmarked)			22	Payment of advance		
23	Other grants			23	Other expenses		
				24	Construction of new buildings		
				25	Construction of new roads and improvement of roads.		
				26	Maintenance of small culverts		
				27	Extension of street lights		
				28	Extension of drinking water street taps		
				29	Creation of new drinking water facilities		
				30	Purchase of new tools. Instruments, materials		
				31	Investments by panchayats		
				32	Other capital expenditures		
	Sub Total				Sub Total		
	(B) Earmarked Grants Fund.				(B) Earmarked Grants Fund.		
1.	11 th Finance commission grant			1.	Works taken from 11 th Finance commission grant.		
2.	State Finance commission grant (earmarked)			a.			
3.	Funeral grant for Adi dravidar			b.			
4.	Others			c.			
				d.			
				e.			
				f.			
				2.	Works taken from State Finance commission grant		
				3.	Funeral grant for Adi Dravidar		
				4.	Others		
	Sub Total				Sub Total		
	(C) Scheme Fund.				(C) Scheme Fund.		
1.	Jawahar Rozhar yozana			1.	Works taken from Jawahar Rozhar yozana		
2.	Indiara Awas Yozana			a.			
3.	Central Rural Sanitation Project			b.			
4.	Other Schemes			c.			
				d.			
				e.			
				f.			
				2.	Indiara Awas Yozana		
				3.	Central Rural Sanitation Project		
				4.	Other Schemes		
	Sub Total				Sub Total		
	Grand Total				Grand Total		

Appendix 7: Dharmapuri District local government administration and functions: December 2004
progress Report (Form 1-46) [translation from Tamil language]

Form No	Class	Category	Details
1	VP	regular	Activities of panchayats(Meetings held,steps taken against submitted form no.30 & inspection of Gram panchayats)
2	VP	regulatory	Action taken against Panchayat President
3	VP?	finance	Equalisation and incentive grants 2000-2001(Grants for basic needs,amount utilised&balance)
4	VP	capital investment	Infrastructure activities of village panchayats &panchayat unions taken under Equalisation and Incentive fund 2000-2001(Amt allotted &spent,works finished and
5	VP?	finance	Equalisation and incentive grants 2000-2001(Grants for basic needs,amount utilised&balance)
6	VP	capital investment	Infrastructure activities of village panchayats &panchayat unions taken under Equalisation and Incentive fund 2001-2002(Amt allotted &spent,works finished
7	VP?	finance	Assigned Revenues[plinth tax](Amt proposed &compensated for the Fazali-the accounting for land revenue)
8	VP?	finance	Assigned Revenues [per plinth tax](Amt proposed &compensated for the Fazali-the accounting year for land revenue
9.(1)	VP?	finance	Assigned Revenue Fees on minor minerals(Amt proposed &compensated)
	VP?	finance	Statement on change of property 2001-2002 (Quarterly account of proposed & compensated amt)
10.A	VP?	finance	Same as Form 10 2002-2003
10.B	VP?	finance	Same as Form 10 2003-2004
10.C	VP?	finance	Same as Form 10 2004-2005
11	VP	finance	Entertainment tax 2001-2002(Quarterly account of proposed &compensated amt)
12	VP	finance	Entertainment tax 2002-2003(Quarterly account of proposed &compensated amt)
12.A	VP	finance	Entertainment tax 2003-2004(Quarterly account of proposed &compensated amt)
12.B	VP	finance	Entertainment tax 2004-2005(Quarterly account of proposed &compensated amt)
13	VP?		Community forest programme-compensation of 60%incentives given to panchayats(expected amt & compensated amt for 2002-03,2003-04,2004-05)
14	VP	regular	11th Fi nance Commission Grants Village Panchayats 2000-2001(Financial efficiency &works efficiency)
14.A	VP	regular	11th Finance Commission Grants Village Panchayats(V.P)2000-2001(No. of works undertaken,finished&pending,with estimation)
15	BP	regular	11th Finance Commission Grants Block Panchayats(B.P)2000-2001(Financial efficiency &work efficiency)
15.A	BP	regular	11th Finance Commission Grants [B.P]2000-2001 (No. of works undertaken,finished &pending ,with estimation)
16	VP	regular	11th Finance Commission Grants [v.P]2001-2002(Financial efficiency &work
16.A	VP	regular	11th Finance Commission Grants [V.P]2001-2002 (No. of works undertaken,finished&pending ,with estimation)
17	BP	regular	11th F.C.G [B.P] 2001-2002 (Financial efficiency &work efficiency)
17.A	BP	regular	11th F.C.G [B.P]2001-2002 (No. of works undertaken,finished &pending with
17A.1	VP	regular	11th F.C.G [V.P]2002-2003 (Financial efficiency &work efficiency)
17.B	VP	regular	11th F.C.G [V.P]2002-2003 (No. of works undertaken,finished &pending with
17.B1	BP	regular	Same as Form 15 [B.P] 2002-2003
17.B.	BP	regular	Same as Form 15.A [B.P] 2002-2003
17.C	VP	regular	Same as Form 16 [V.P] 2003-2004
17.D	BP	regular	Same as Form 15 [B.P] 2003-2004
17.E	VP	regular	Same as Form 16 [V.P] 2004-2005
17.F	BP	regular	Same as Form 15 [B.P] 2004-2005
18	VP	finance	Financial position(Public Fund)-Village panchayats 2004-2005(Reciepts from states &other revenues)

19	VP	finance	Financial position(Public Fund)-Village panchayats 2004-2005(Expenditures from S.F.C grants & other revenues, main activities done)
20	VP	regular activities	Progress of works-Works undertaken from Public Fund 2002-2003[All V.P s] (Amt spent for works undertaken, completed, maintenance & basic works, completed works & works to be completed)
20.A	VP	regular	Same as Form 20 2003-2004
20.B	VP	regular	Same as Form 20 2004-2005
X.3	VP	regular	Works taken under Public Fund- Village Panchayat 2004-2005 (No. of works undertaken, completed, pending with estimation viz..drinking water maintenance, Basic works, road maintenance)
21	BP	finance	Financial Position (Public Fund) Panchayat Union 2004-2005(S.F.C Grants & other revenues)
22	BP	finance	Financial Position (Public Fund) Panchayat Union 2004-2005(Expenditure Amt spent for administration, maintenance, basic works)
23	BP	regular	Works undertaken from Public Fund 2002-2003 -Panchayat Union(No. of works undertaken, completed, pending & estimation viz..drinking water maintenance, road maintenance, basic works etc)
24	BP	regular	Works undertaken from Public Fund 2003-2004 -Panchayat Union(No. of works undertaken, completed, pending & estimation viz..drinking water maintenance, road maintenance, basic works etc)
24.A	BP	regular	Works undertaken from Public Fund 2004-2005-Panchayat Union (No. of works undertaken, completed, pending & estimation viz..drinking water maintenance, road maintenance, basic works etc)
X.4	BP	regular	Works undertaken from Public Fund 2004-2005-Block Panchayats (No. of works undertaken, completed, pending & estimation viz..drinking water maintenance, road maintenance, basic works etc)
25	DP	finance	Financial Position [Public Fund]Receipts of District Panchayats (Opening balance, S.F.C.Grants, other revenues)
26	DP	finance	Financial Position [Public Fund]Expenditure of District Panchayats (Expenditures on admn, maintenance, basic works etc)
27	DP	regular	Works taken under Public Fund- District Panchayat 2002-2003 (No. of works undertaken, completed, pending with estimation viz..drinking water maintenance, Basic works, road maintenance)
28	DP	regular	Progress of works-works taken from Public Fund 2003-2004 District Panchayat (No. of works undertaken, completed, pending & estimation viz..drinking water maintenance, road maintenance, basic works etc)
28.A	DP	regular	Progress of works-works taken from Public Fund 2004-2005 District Panchayat (No. of works undertaken, completed, pending & estimation viz..drinking water maintenance, road maintenance, basic works etc)
	VP	finance	Compensated amount among local governments-2003-2004(Amt given to Panchayats & amt received from Panchayats)
30.1	VP	finance	House tax (Demand ,collection & balance for 2001-02, 2002-03, 2003-04, 2004-05)
31.2	VP	finance	Profession tax(Demand, collection & balance for 2001-02, 2002-03, 2003-04, 2004-05)
32.3	VP	finance	Advertisement tax(Demand, collection & balance for 2001-02, 2002-2003, 2003-2004, 2004-2005)
33.4	VP	finance	Cable TV tax (No. of Panchayats, No. of Registered cable TV owners, Total Amount collected from owners @Rs.10000, No. of cable TV connections, demand, collection & balance for 2001-2002)
34	VP	finance	Cable TV (No. of Panchayats, no. of Cable TV connection, demand, collection & balance for 2002-2003)
34.A	VP	finance	Cable TV (No. of Panchayats, no. of Cable TV connection, demand, collection & balance for 2003-2004, 2004-2005)
35	VP	finance	2C (Demand ,collection & balance for 2001-2002, 2002-03, 2003-04, 2004-05)
36.3	VP	finance	Other taxes & non tax income/revenue(D, C & B for 2001-02, 2002-03, 2003-04)
37	VP	regular	Maintenance of basic requirements by Panchayats-Hand pump & motor pumps(No. of working pumps, no. of pumps not working, % of working efficiency of hand pump & motor pump)
38	VP	regular	Types & numbers of hand pump & motor pump (H.P varieties, India marg III Tara, M.P varieties-jet, centrifugal, submersible, others)

39			
40	VP	regular	Drinking water charges 2004-2005 (No.of drinking water connections,amt collected for each connection @Rs.1000 ,monthly water charges @Rs.30 by panchayats,collected amt \$balance)
41	VP	regular	Drinking water charges paid by V.P to T.N drinking water supplies department(Amt to be paid before 1.04.2004,amt to be paid from 1.04.2004,amt
42	VP	regular	Works taken under Drought relief programme 2002-03-Village local Govt only(Assigned amt,No.of works undertaken,finished,expenditure &balance)
42.A	VP	regular	Works taken under Drought relief programme 2003-04-Village local Govt only(Assigned amt,No.of works undertaken,finished,expenditure &balance)
42.B	VP	regular	Works taken under Drought relief programme 2004-05-Village local Govt only(Assined amt,no.of works undertaken,finished,expenditure \$balance)
43	VP	regular	Streets light report(Including Sccolonies,total no.of street lights-tube lights.bulbs.sodium vapour lamp.mercurv vapour lamp.solar lights &no.of working
44	VP	regular	Street lights in SC colonies(No.of street lights in SC colonies &total no. of working street lights)
45	VP	regular	New street lights installed during 2001-2002
45.A	VP	regular	2002-2003
45.B	VP	regular	2003-2004
45.C	VP	regular	2004-2005
46	VP	regular	Charges paid by V.P to Electricity department (Amt to be paid during 1-04-2004,amt to be paid from 1-04-2004,amt paid during 1-04-2004 from Public fund

* VP: village panchayats, BP: block panchayats, DP: district panchayats

** Categorised by the author to differentiate kinds of activities

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