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**RETHINKING THE CONCEPTUAL
FOUNDATIONS OF KERALA'S DECENTRALIZATION
IN THE LIGHT OF THE EXPERIENCE DURING THE
PAST DECADE**

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The views expressed here are those of the author and does not represent the view of the Centre for Development Studies.

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ABSTRACT

Though the decade-long decentralization in Kerala has made remarkable achievements in terms of consistent devolution of financial resources, and improvement in the implementation of poverty eradication schemes, there are many glaring limitations. These include the tendency to take up many unviable projects, lack of proper monitoring and evaluation, inadequate functioning of *grama sabhas* and beneficiary committees, continuing lethargy in service delivery, very slow progress in computerization, etc. In this context, this note makes an outline of a more realistic conceptual foundation for decentralization. It calls for using the concept of 'local market failure' in deciding the activities of LSG, treating *grama sabhas* and beneficiary committees as mechanisms to exercise citizens' rights in extreme or emergency situations, enhancing local resource mobilization, and instituting incentive systems so that local resource allocation becomes both autonomous and efficient.

FOREWORD

Since peoples' planning and decentralisation have accumulated more than ten years experience in Kerala, it is natural that there would be attempts to learn from their successes and failures. There was one such national attempt recently as part of a national conference organised in Trivandrum. The researchers of RULSG were also requested to present their view in this conference. It is in this context that V. Santhakumar prepared and presented this note. He views that some of the limitations of peoples' planning in Kerala are rooted in its original conceptual foundations, and suggests the outline of an alternative. We hope that attempts such as these will strengthen public debates and inform policy making on local governments in Kerala and other parts of India.

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Introduction

People's plan campaign and associated efforts of Kerala's decentralization have been going on for the past one decade. It would be insightful to take an overview of this experience in order to examine the validity of the conceptual foundations of the campaign initiated in 1996. This note, which constitutes a preliminary attempt in this direction, starts with a brief outline of the well-acknowledged limitations of the local governments in Kerala. This is followed by an outline of the changes in the conceptual foundations that may be required to put the local governments in the state on a more realistic footing.

Some Limitations of Local Governments in Kerala

The state has undoubtedly progressed well on certain dimensions of local governance. Around 25 to 30 per cent of the plan resources of the state are spent through these local governments. A cadre of local leadership (including women) has developed along the process, with many of them sincere, committed and reasonably knowledgeable. There is also evidence of money spent on poverty eradication or individual-oriented schemes increasingly reaching the needy unlike during the earlier department-driven delivery system (since it is difficult to neglect the really needy when resource allocation decisions are taken at the local

level). One visible improvement that we see as an impact of decentralization in Kerala, is in the construction and, to some extent, maintenance of rural roads.

However many glaring weaknesses or limitations are in evidence in the functioning of local self governments (LSGs) in Kerala. A significant part of the funds allocated to the local governments is spent without deriving much benefit. Such wasteful expenditure exists apart from corruption (of which there exist not so infrequent cases). Many schemes are planned and implemented by the local governments (especially in productive sectors of agriculture and industry) with scant regard for their potential impact on the economic situation of the locality, or for the ability of the LSG to manage such schemes. For example, one finds annual episodes of distribution of seedlings (of say, pepper, cashew, etc.) without any visible improvement of pepper/cashew cultivation in the locality. It is not rare to see instances of LSGs attempting to start cashew processing or other similar agro-industrial ventures, without bothering much about how to manage such units in a competitive environment, and hence making unproductive investments and creating sick units. There is a serious confusion on what local governments should (shouldn't) do or what they can (cannot) do effectively. One reason for this state of affairs could be the absence of a conceptual framework such as 'local market failure' for guidance in deciding the activities of local governments. The State government also gives guidelines to local governments without the backing of a well articulated theoretical understanding. It is not surprising, that in such a situation, many 'productive sector' schemes of LSGs have turned ineffective.

The weakest outcome of decentralization in Kerala is in the realm of basic governance and service delivery. For example, services such as issuance of birth certificate, or collection of building tax, which are the basic functions of local governments continue to be carried out

lethargically and strategies such as ‘citizens’ charter’ to speed up such processes have not been very successful. Cleaning of public spaces, another local public good - a prime justification for the existence of local government – is also indifferently carried out.

It is not unusual to see extreme competition taking place among elected representatives to get a share of the cake, which sometimes works against the provision of public goods located in one place serving large groups of the population or against the need-based implementation of financial-transfer and merit-good schemes.

Some expectations of the initiators of people’s planning in Kerala have not materialized either. They expected *grama sabhas* to play a major role in deciding and monitoring the activities of LSGs. The attendance in *grama sabhas* used to be thin even from the beginning, and they, later on, became assemblies of persons who expect direct benefits and of activists of dominant political groups. The opportunity cost of public resources is not reflected adequately in the choice of the schemes made by *grama sabhas*, even in cases in which participation is lively. When development needs are listed through participation, it becomes a mere wish list, and the trade off involved due to the limitations of available public resources is not reflected in the ‘participation’ process, may be due to the inadequate local resource mobilization, lack of adequate consideration of options (like if we select the scheme A, the scheme B cannot be implemented) in the selection, lack of clear information on available resources for a ward at the time of selecting the schemes, etc. To some extent, this inadequate consideration of opportunity costs discourages people and their representatives from carrying out adequate monitoring and evaluation of schemes implemented, and from designing appropriate institutions and financial incentives to see that the benefits of schemes accrue on a sustainable basis.

In the execution of projects, it was planned to avoid contractors, and their role was to be taken over by beneficiary committees. Such

committees however proved non-functional, as genuine people who had been associated with such committees got disenchanted with the difficulties to implement projects within the prevailed red-tape regime. Soon such committees became the cover of '*benami*' contractors. It was also expected that along with the transfer of a substantial set of functions to the local governments, adequate number of employees would also be transferred. But this has not happened due to the inability of successive governments to confront the resistance of government employees and their trade unions, who are unwilling to move out of their comfortable postings in cities, and in large organizations with great possibilities of corruption. Thus local governments struggle to cope up with the workload with few employees, over whom the elected representatives do not have much control. The elected representatives themselves do not have adequate incentives or ability to carry out the tasks entrusted upon them.

There are other problems as well such as: (a) little progress made in the use of IT in improving the governance of LSGs; and (b) continuation of a dominant role for centralized bureaucracies (whether through-centrally sponsored schemes or the requirement of getting permissions from line departments) in many activities that could have been planned and implemented at the local level.

Thus Kerala experiences several second generation problems in decentralization. First generation problems include difficulty in (a) convincing the political and administrative elites of the need for genuine decentralization; (b) actual transfer of resources to local governments, even if there is agreement on formal forms of decentralization, and (c) elite capture – by which the local elite take over the control over local governments and decentralized allocation of resources. The first generation problems have been sorted out to some extent in Kerala. It is the second generation problems, of improving efficiency and effectiveness, designing of incentives for stakeholders to align their

interests with those of society as a whole and ultimately of creating institutions that lead to sustainable welfare of local people, that the State currently encounters.

An Outline of a Conceptual Alternative

Governance is needed to enforce law and order, maintain property rights, and most importantly for the provision of public goods – those goods and services for which collective action of people living in an area is necessary or cost effective rather than action by individuals or households to produce them individually. There exist many public goods to be provided in a locality such as cleaning of public spaces, street-lighting, maintenance of roads, drainage, etc., registration of births and deaths, maintenance of property records, and carrying out of all these activities by collection of certain types of taxes such as those on buildings or employment from the locality (and also with tax transfers from higher tiers of government). Local governments should be in a better position to know the requirements of these public goods and the manner in which to provide them cost-effectively, through the utilization of local knowledge. Well functioning local-governments providing local public goods of adequate quality and quantity should be part of any modern society. Just like the need for collective action and leadership in any group entity (say in a parish, residence association, etc.), responsible collective action and leadership are needed at the level of local governments too.

In a society in which large sections of people are poor, and where governments at the state or the central levels spend substantial amounts of resources on poverty alleviation, it is natural that the burden to implement such schemes would fall on local governments. In fact, local governments have some comparative advantages in this regard, mainly in identifying the really poor and other families which require support from such schemes. Thus it is reasonable for local governments to spend a part of the time and effort on poverty alleviation and transfer schemes;

but there is no justification for doing so by neglecting their core function, i.e., the provision of local public goods, that too in Kerala in which only less than one-fifth of the population live below the poverty line (and probably only one-tenth in rural areas).

Low levels of economic development of the state, and the inability of the state government to overcome certain constraints on development, may encourage local governments to take steps for promoting 'economic development' of the locality concerned. However, a clear understanding of what is possible and what is not possible for a local government in this regard is essential. What is definitely possible for a local government is the creation of the infrastructure for agriculture (like the development and maintenance of micro-irrigation projects, public markets, etc) and small and medium sized industries (like the creation of the industrial parks since acquisition of lands can be difficult for individual entrepreneurs) and the construction of roads, maintenance of clean public spaces, and waste management, etc. Attempts to start industrial units on the part of the local governments would lead to gross wastage of resources as evident from the long experiences in India and abroad; governments at whatever level they are, do not have adequate incentives to manage production units in any sector (agriculture, industry or services) efficiently. This task is best left to the private entrepreneurship. The spending of money to provide subsidy to private-owned industrial firms will not be beneficial either in the long run due to its negative impact on the self-acquisition of competitiveness of such firms. Thus it is appropriate for the local governments to limit their action for economic development to the provision of infrastructure and other public goods. Seeing that every child gets school education of at least reasonable quality, and that the public/community health system in the locality function well, etc. are indirectly useful ways by which LSGs could contribute towards local level economic and social development. Thus the provision of local public goods and other infrastructure, and the implementation of poverty alleviation programmes constitute the core activities of local governments.

Grama sabhas and development seminars, etc. are expected to play a major role in resource allocation process. Experience has shown that these forums are at best ineffective, and that they rarely reflect the interest of the society at large, in resource allocation. Ultimately, the elected representatives and their political parties decide in fact, much of the resource allocation. We need, therefore, to rethink the role of *grama sabhas*. Though people would like to exercise control on extremely important issues, it is to their interest that the local government function (reasonably well) without them spending time in ‘meddling’ with governance. Even in most long-standing forms of representative democracy, people exercise such options (other than voting) only rarely, but good governance take place even without their exercising such options. We should therefore think about making governance and resource allocation more effective without the regular intervention and monitoring of the *grama sabhas* and other such citizens’ forums.

The State government comes up with detailed guidelines elaborating what proportion of the funds should be spent on each of the sectors (productive, social, etc.). Ideological preferences of the government too reflect in such guidelines. But beyond this, the fear that local governments would spend resources ineffectively and on projects that are not adequately beneficial, and the desire to control corruption, encourage the state government to come up with detailed guidelines. But the guidelines have turned counter-productive on many occasions. They work against the use of resources in ways which reflect local conditions and priorities. Thus the ideal situation would be, one in which local government representatives are in a position to decide the allocation of resources without being guided by the state government. However, there is the possibility that some local governments may indulge in corruption or spend money on not-so-important projects. Thus, though the avoidance of excessive state guidelines is necessary, their existence is justified to some extent for the improvement of local decisions on the allocation and utilization of resources carefully.

One reason why local decisions do not lead to effective use of resources is that most of the funds for local governments come from state government. In fact, most local governments do not collect fully whatever taxes are due to them from the locality, and have become mere spenders of funds received from above. Under such a condition, neither the representatives nor the local people have adequate incentives for careful utilization of funds. Thus only by increasing the proportion of local contribution in the overall revenue of local governments, would local interest in spending carefully be enhanced. Thus local governments should expand their own local sources of income, not only by enhancing tax rates, but also by collecting taxes efficiently; they should also provide useful services and impose reasonable charges for them.

To some extent, the nonchalant attitude to spending money prudently has reflected in the deterioration of beneficiary committees, which had been envisaged as mechanisms to monitor the formulation and implementation of projects. Besides, the idea that contractors could be kept out from construction work in LSGs was also not a well conceived one. Contractors are disliked for corruption that they indulge in collaboration with self-seeking politicians and officials. However, rather than fine-tuning the institutions to avoid corruption, the proponents of democratic decentralization in Kerala erroneously thought that the services of contractors could be dispensed with absolutely. Contractors do provide some advantages. They acquire technical and coordination skills required for construction, possess stocks of construction equipment, and have incentives to strive for cost minimization. On the other hand, beneficiary committees not only lack skills, but many of their members do not have the time and the resources to take the trouble of doing supervision. If somebody puts in a lot of time, he would expect some compensation, thus creating a route to becoming a '*benamy*' contractor. The real challenge is to know how to use the merits of the contract system without allowing contractors to minimize costs in such ways, which affect quality of construction. Even if contractors are kept out, they would be depended

upon since beneficiary committees do not possess the required skills (including those to deal with officials to get the bills approved) and equipment.

It is also a fact that local governments in Kerala are currently loaded with many functions but with few staff. If the staff is to be appointed by the Public Service Commission, there would arise hurdles: many people recruited might not be interested to work in rural areas, people from far off areas may get the job and their presence in the office would be minimal, the LSGs may have only nominal control over them, their salary structure may not reflect the market wages and hence governments would be unwilling to recruit as many staff as required, and so on. The alternative would be to have local recruitment for short periods; but the experience in Kerala (especially in cooperative societies) shows that local recruitments would become avenues to give jobs to undeserving kith and kin of politicians. Though no quick solution exists to the problem, the ideal solution seems to be short-period recruitment by local government, from among the persons working in other government offices, on a competitive basis and on merit.

Thus we should have a realistic picture of what should be done (eg. provision of local public goods and other infrastructure and effective poverty eradication), and what should not be done (provision of non-merit private goods, running and management of production units, etc.). We should have realistic expectations of *grama sabhas*, beneficiary committees, and social auditing (as ideal rights for citizens but they should not be forced to exercise these options; and even without such exercises, local governments should attempt to meet people's expectations in terms of service delivery). Local taxes should be collected effectively by educating people of the importance of paying taxes, and the tax collected should be spent on useful purposes in an efficient manner. Resources should be spent usefully and efficiently to enhance the welfare of the local population even without the prop of guidelines from the state government.