

Country experiences in decentralization in South Asia

Report of the subregional workshop
Kathmandu, Nepal
24 to 26 February 2004



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Report of the subregional workshop on country experiences in decentralization in South Asia Kathmandu, Nepal, 24 to 26 February 2004

Introduction

The subregional workshop on country experiences in decentralization in South Asia was organized by the FAO Regional Office for Asia and the Pacific jointly with the Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP) in Kathmandu, Nepal, from 24 to 26 February 2004. Senior government officials and representatives of non-governmental organizations (NGOs) from Bangladesh, India, Nepal, Pakistan and Sri Lanka, with FAO and CIRDAP representatives, participated in the meeting which was held at the Local Development Training Academy (LDTA) in Lalitpur, Kathmandu. (The list of participants and resource persons is given in Appendix I.) The workshop included a field visit to a DDC (district development committee) at Lalitpur.

Objectives of the workshop

- 1) To provide a forum for senior policy makers, NGOs and donor agencies from South Asian countries to share national experiences, take stock of decentralization measures being implemented in the region and to suggest further action.
- 2) To strengthen strategic partnerships among all stakeholders for capacity-building on decentralized planning in support of national initiatives on decentralization for poverty and hunger reduction.
- 3) To formulate recommendations for CIRDAP members and FAO for a regional assessment of decentralization and to strengthen linkages and activities related to decentralization and poverty alleviation.

Issues for discussion

- How to synergize the decentralization process with the overall objectives of sustainable agricultural and rural development (SARD) in the region.
- How to strengthen partnership-building efforts for better implementation of decentralization as a tool for poverty and hunger reduction in South Asia.
- How FAO and CIRDAP can support the decentralization process with capacity-building for natural resource management and improved access to social and production support services for enterprise development by the rural poor.
- What is the role and experience of local governments in financial resource mobilization, promotion of livelihoods and income from farm and non-farm activities?

Summary of proceedings

Welcome statement

Welcoming the participants, N.B. Khadka, Acting Executive Director, Local Development Training Academy (LDTA), Nepal, said the meeting provided an opportunity to make a valuable contribution to the strengthening of the decentralization process in South Asia.

Mazu Tsurumi, FAO Representative, Nepal, expressed thanks to the South Asian country delegates for their participation in the workshop. The issues to be taken up by the workshop are closely related to the achievement of FAO's goals and priorities, he said.

Inaugural address

In his inaugural address, H.E. Kamal Thapa, Minister for Local Development, Government of the Kingdom of Nepal, said that the workshop theme was very important and timely. The key issue facing governments in the region is ensuring sustainability of development while meeting the aspirations of the masses. The answer lies in decentralization, the minister said.

In Nepal, 4 000 VDCs (village development committees) and 75 DDCs (district development committees) have taken decision-making closer to the people. The government was now transferring the management of primary schools and primary health units to local communities and had already found sufficient improvement in the management of these institutions. A committee had been set up to identify capacity-building needs to strengthen financial autonomy of local government institutions, Mr Thapa said.

The government realised that poverty reduction programmes could not be effective without building capacity of the rural poor for resource management, planning, implementation and monitoring of development programmes and projects. He expressed his best wishes to the workshop.

Outline of objectives and expected outputs

Wim Polman, Rural Development Officer of the FAO Regional Office for Asia and the Pacific, outlined the objectives and expected outputs of the workshop. The workshop provided a unique opportunity for discussing how decentralization can work for poverty and hunger reduction in the region and should focus on strategies to achieve the FAO World Food Summit (WFS) and United Nations Millennium Development (MD) goal to reduce poverty and hunger by half by the year 2015. This would enable identification of priority areas for support to capacity-building of stakeholders and coalition-building, through bilateral and multilateral cooperation. CIRDAP and LDTA provide a platform to facilitate future work on this topic, he said.

He emphasised the need for reorienting government line ministries to bring decentralization issues to the fore and link these with the objectives for hunger reduction and sustainable agricultural development.

Keynote address

In his keynote address, Mya Maung, Director General, CIRDAP spoke about the Centre's close collaboration with the FAO Regional Office for Asia and the Pacific for awareness and capacity-building on decentralization issues and the FAO/MD goals for hunger and poverty reduction in the region. CIRDAP-FAO workshops on the topic have been held in India to develop *A handbook for trainers on participatory local development* for India's three million elected village councilors, a third of them women, and local government officials.

According to World Bank estimates, South Asia is home to 40 percent of the 1.3 billion poor people in the world. While a number of targeted programmes for livelihood and income generation have been implemented in the region, the achievements have been limited, highlighting the need for participatory approaches involving the poor. In this context, human resource development and capacity-building of people's organizations and local governments have become essential

In Sri Lanka, decentralization towards subregional levels and local participation in planning and development interventions have significantly enriched social development programmes, he pointed out. More than 80 percent of the country's population has adequate access to basic sanitation, compared to 53 percent in Bangladesh, 31 percent in India, 27 percent in Nepal and 61 percent in Pakistan. Sri Lanka also has the lowest infant mortality rate of 20 per thousand live births against 68 in Bangladesh, 66 in India, 72 in Nepal and 85 in Pakistan.

The crucial issues in the decentralization process in South Asia are a) local resource mobilization by local governments, private and civil society organizations, and b) capacity-building for effective participatory planning, promotion of employment and income generation activities by local governments.

Address by the chairperson

Khem Raj Nepal, Secretary, Ministry of Local Development, Government of Nepal, said devolution in his country had been implemented in the basic health, basic education, agriculture extension and rural infrastructure sectors. Nepal's positive political commitment to decentralization was supported, among others, by the provision in the Local Self-Government Act of the Decentralization Implementation Monitoring Committee chaired by the Prime Minister; proactive policies on decentralization in the Tenth Plan which include finalization of a road map for fiscal decentralization and preparation of the Local Bodies Service Commission. The recent decision on revenue sharing would enhance the financial capability of the local bodies in the country.

Vote of thanks

B. Sudhakar Rao, Head, Training, CIRDAP, proposed a vote of thanks at the end of the inaugural session.

Summary of presentations

The workshop attempted to evaluate the decentralization process in five South Asian countries in terms of political commitment, delegation of functions and local bodies' access to resources.

Bangladesh

The 1972 Constitution provided the basis for the devolution of powers to local government bodies which were entrusted with local administration and development responsibilities. Women have been given “equal rights with men in all spheres of the State and public life”

However, local governments lack adequate financial resources for the development of basic rural infrastructure. There is a need to improve the resource base of local government institutions through sharing of tax and non-tax revenue, and provision of grants and other development assistance by the central government. Local government bodies also need support for building their management capacities. Public-private partnerships have to be promoted for local development.

A national consensus is needed on the goals, objectives and tools of decentralization. To be effective, decentralization should be supported with enabling policies and participatory monitoring. Legislation on decentralization should be strengthened for enhanced participation of women and other weaker social sections

India

The 73rd Amendment of the Indian Constitution installed village-based *Panchayati Raj* institutions as the country's third level of governance after the central and state governments. About three million councilors, nearly a third of them women, have been elected to over 260 000 *Gram Panchayats* at village level, 6 500 *Panchayat Samitis* at sub-district level and 500 *Zilla Parishads* at the apex district level.

The constitutional sanction to *Panchayati Raj* has raised expectations and aspirations. *Panchayat* elections have disproved the myth that rural women are uninterested in public life. There is a near unanimity among village women that they would have been unable to get into these bodies were it not for statutory representation. Significantly, about 40 percent of women *panchayat* members belong to marginalized groups.

Panchayats face impediments to discharging their responsibilities, the primary being an inadequate resource base. *Panchayati Raj* representatives and nearly a million local government officials assigned or closely connected with the *panchayat* bodies also need capacity-building training.

Nepal

The Local Self-Governance Act (LSGA), 1999 and Local Self-Governance Regulations (LSGR), 2000 provide the framework for decentralization. Policies and legislation are in place to encourage local participation through local government institutions, NGOs, self-help groups such as users' committees, community organizations and women's groups.

Local bodies are becoming increasingly involved in local service provision and users' groups in the management of local resources and services. Thousands of user groups have been given authority to manage local forests.

Decentralized governance has produced positive impacts in terms of people's participation in governance, poverty reduction, empowerment of women and weaker social groups, and involvement of non-governmental organizations and the private sector in delivery of social and production services.

Local people have been able to solve individual as well as community problems on their own. The number of women in leadership roles in community-based activities is increasing. The provision for representation of women in local governance has made about 40 000 women local government representatives.

Although the LSGA has devolved authority to local bodies, central line agencies are reluctant to put this in practice. Local bodies continue to be treated as subordinate agents of local development rather than autonomous units of local self-governance.

Pakistan

In 2001, a three-tier federated local government system was set up in every district of the country as an integral part of provincial governments. The local government system integrates rural with urban local governments and the bureaucracy with the local governments so that the district administration and police are answerable to the elected head of the district government.

Women, peasants, workers and minorities have been given representation at each level of local government. Citizen Community Boards provide a mechanism for motivating and involving the local community in local development. The local government system has been implemented in all the four provinces of Pakistan and direct elections have been held to fill more than 120 000 Union Council seats.

Decentralization has made the district and *tehsil* (sub-district) the hub of all development and service delivery activities. The head of the district government is an elected representative and not a bureaucrat. While the new system provides for more responsiveness and accountability, the process of establishing supporting institutions is slow which is affecting service delivery. Yet, local revenue mobilization is insufficient for the sustainability of the local government bodies and comprehensive capacity-building is required for local government institutions.

Sri Lanka

Major devolution legislation was enacted in 1987 in the form of the 13th Amendment to the Constitution and the Provincial Councils Act No. 42.

Recent studies of the devolution process in Sri Lanka have found shortcomings in the structure and working of decentralized governance in the country. Social and economic indicators strongly suggest that decentralization has not been effective in reducing inter-regional income and social development disparities.

The main reason is the lack of sufficient political will at the centre and an inadequately developed legal framework which have made the system unwieldy and ineffective with high 'transaction costs'.

This is reflected in the insufficient delegation of powers from the centre to the provinces and from the provinces to local authorities. There is also insufficient utilization of existing technical and management capacities.

Conclusions and recommendations

The following observations were made during the group discussions:

- United Nations and FAO support to decentralization has generally focused on government line ministries. However, insufficient attention has been given so far to the need for decentralization of its functions/responsibilities by the Ministry of Agriculture and Cooperatives which is the core line ministry for sustainable agriculture and rural development and thus for poverty reduction and food security in rural areas.
- Many UN/donor-funded projects promoting micro-enterprise development in rural areas are independent of FAO as technical agency for agriculture and rural development. As a result, many opportunities for enhanced impact on rural poor as farmers and users of natural resources are missed out. This should be a priority issue for UN coordination in poverty reduction policies and programmes.

The two groups made the following recommendations.

Group 1

Political will

Considering that decentralization is a *sine-qua-non* for the eradication of poverty and hunger in this region, it is essential to have a strong political commitment for decentralized governance.

Legislation

- Functional clarity and demarcation between line ministries, local bodies, civil society organizations as well as different layers of local bodies and other stakeholders including NGO's.
- Demarcation between obligatory and optional functions.
- Legislation for borrowing money from financial institutions.
- Clear provisions for inter-governmental transfers like sharing of revenue and tax proceeds.
- Clear legislation for common property resources.
- Provision for social audit.
- Criteria for grant, matching grant, incentive grant
- Sustainability in the flow of funds.

Institutional

- Good personnel system for local bodies – for assessment and collection of taxes.
- Tax payers' committee.
- Good record system.

Collaborative issues

- Collaboration with civil society and private sector in planning/programme formulation.
- Incentive for tax payers, private sector and local bodies for service delivery.

Punitive measures

- Defaulters/tax evaders.
- Local bodies which do not maintain and make public records.
- Publishing names of good tax payers and defaulters.

Capacity-building systems and procedures

- Establishment of systems – manuals, guidelines, direction.
- Networking and partnership.
- Openness and transparency.

- Timely dissemination of information.
- Right to access information through the use of information technology.

Human resource development

- Training need assessment.
- Basic course on training and orientation.
- Specialized courses for skills development.
- Delivery of quality and participatory training.
- Cascading of training.
- Networking, partnership – coalition building.
- Sustainable funding.
- Exposure visits – local/national/international.
- Monitoring evaluation and feedback.
- Sustainability.
- Community empowerment process – local government vs knowledge base through participatory approach.

1. *Local government role in employment generation*

2. *Enhancement of local government capacity for sustainable resources management*

3. *Role of local government in empowering women, disabled and indigenous people (1, 2 and 3 are overlapping and interrelated)*

- Use and maintenance of common property resources (CPR).
- Equity in the application of CPR.
- Redistribution of resources earned by community forestry groups (Nepal).
- Transfers of CPR to local governments ensuring that marginalized groups have equal access and control over CPR.
- Management of agricultural resources by local governments by capacity-building of associations of user groups, cooperatives and marginalized people.
- The poorest and marginalized must be involved in local government decision-making for creating local infrastructure.
- Regularization and handing over encroached common land to local governments.
- Promote competitive environment among local bodies for promotion of rural small-scale enterprises.

Group-2

These recommendations are complementary and efforts have been made not to repeat those already made during the presentation of country reports.

Financial resource mobilization

- Increased share of national resources for local bodies.
- Direct assignment of taxes.
- Formula-based distribution of available resources among local body levels.
- Reduction in regional disparities/provision of subsidy to poorer regions.
- Reduction in administrative expenditure.
- Community participation with matching contribution.
- Capacity-building for efficient tax collection and account keeping.
- Action – central/state governments.

Capacity-building for participatory local planning

- Formulation of national action plan.
- Financial/technical assistance from international/regional organizations and bilateral donors.

Country experiences in decentralization in South Asia

- Identification of training needs.
- Identification of local resource persons.
- Utilization of existing institutional facilities/infrastructure.
- Partnership with political parties and local NGOs.
- Action – national/state governments.

Promotion of income/employment generation

- Partnership with financial development institutions.
- Planning/implementation of income/employment generation schemes.
- Identification of key sectors/potential schemes and arranging backward-forward linkages.
- Skills development.
- Establishment of sales/service outlets.
- Weekly/monthly bazaars/markets.
- Revival and support to indigenous technologies.
- Development of cooperative enterprises.
- Access to marketing and related information.

Sustainable natural resources management

- Assignment of public land to rural poor for productive use.
- Enforcement of religious/legal propriety rights of women.
- Watershed management.
- Joint/community forest management.
- Investment of local revenue for natural resource management.
- Capacity building.

Empowering women and marginalized groups

- Ensuring benefits from national health, education and employment facilities.
- Political participation at all levels.
- Social mobilization and shunning cultural/social prejudices.
- Targeted schemes/projects.
- Formation of self-help groups.

Recommendations for FAO

1. Comprehensive study of decentralization in the Asia-Pacific region in the context of sustainable agriculture and rural development (SARD). Study should also focus on extent of decentralization as measured in terms of
 - a) direct elections to different layers of local administration;
 - b) representation of women and weaker sections in local bodies;
 - c) local government expenditure;
 - d) investment in rural infrastructural development.
2. Development of a resource centre and data bank on various aspects of decentralization/SARD in the region. Development of IT capacities within CIRDAP focal points in each country.
3. TCA field programme development in collaboration with RAPS Rural Development Section and facilitation of inputs in FAOR Country Framework formulation.

Edited country papers

1

Role and experience of local government in Bangladesh

Mustafizur Rahman, Joint Secretary (Dev.), Ministry of LGRD, Bangladesh
Bimal Kumar Kundu, Director, BARD, Bangladesh

The evolution of local government functions

The origin of the institution of local government in its present form in Bangladesh can be traced to the period of British rule in the subcontinent. Local government institutions were initially developed to maintain law and order in the rural areas. By the time of independence and partition of India in 1947, both tiers of local government—the Union and District Boards—had become fully elective. Several Union Board chairmen had been elected to the District Boards, some even to the Bengal Legislature showing how local government institutions could play an important role in training peoples' representatives for higher political responsibilities.

Rural local government in Bangladesh has the following tiers

- *Zila Parishad* (district council) at the apex.
- *Upazila Parishad* (Sub district council) at the intermediate level).
- Union *Parishad* (union council) at the lowest level Each union is divided into wards and each ward is composed of villages.

In the past, the union *parishad* had about 37 compulsory functions and a similar number of optional functions but without sufficient autonomy to plan and implement projects. It was not considered necessary to give sufficient funds to local bodies because development projects were mainly prepared by the central government and union *parishads* were responsible mainly for helping implement the centrally prepared projects in their areas.

Even under the *upazila* system when, for the first time, responsibility for preparing five-year plans for each *upazila* was given to the sub-district councils, the plans had to be approved by the central government. There were also restrictions on the *parishads'* use of funds provided by the central government. Moreover, the central government had always retained control over local government representatives through the Ministry of Local Government which could dismiss local government representatives on a number of grounds. There was, therefore, a need for clearly defining the powers of local government institutions for the preparation of development plans and utilizing government funds.

Constitutional and legal basis of local government in Bangladesh

The 1972 Constitution provided the legal basis and powers of local government bodies. According to Article 59 of the Constitution

- (1) Local government in every administrative unit of the Republic shall be entrusted to bodies composed of persons elected in accordance with law.
- (2) Every body such as, is referred to in clause (1) shall, subject to this Constitution and any other law, perform within the appropriate

administrative unit, such functions as shall be prescribed by Act of Parliament, which may include functions relating to –

- (a) administration and the work of public officers;
- (b) the maintenance of public order; and
- (c) the preparation and implementation of plans relating to public services and economic development.

Representation of women in local bodies

Article 28(2) of the Constitution of Bangladesh gives women “equal rights with men in all spheres of the State and public life” and Clause 29(1) states: “There shall be equality of opportunity of office in the service of the Republic.”

Constraints to local level resource mobilization

The actual demand for physical and social infrastructure at the local level (union, *thana* and district) far exceeds the availability of financial resources from local tax and non-tax income as well as the annual grants from the government. A renewed local level resource mobilization strategy, therefore, requires a two-pronged approach that

1. recasts sources of tax and non-tax revenue for different strata of local government, and
2. redefines the basis for government block grants and other development funds to local governments.

A revised scheme for improving the revenue income of the union *parishad* could include the following in the five main revenue categories:

- TAXES
 - *Chowkidari* tax and tax on households.
 - Share of land transfer tax.
 - Entertainment tax on theatres, exhibitions, etc
- FEES
 - Fees for providing certificates and other services.
 - License fees on professions/trade.
 - Fees for registration of marriage/divorce.
 - Fees from NGOs seeking union *parishad* services or assistance in project implementation.
- PROPERTY INCOME
 - Income from *hats* /bazaars.
 - A 75 percent-share of income from ponds of less than 3 acres, the rest going to the centre.
- MISCELLANEOUS
 - Share of income from *sairat mahals* (Water, Sand, and Stones).

Constraints to social mobilization and poverty alleviation through decentralization

Democratize decentralization supported by social mobilization is a powerful tool for poverty alleviation. However, it faces the following constraints in Bangladesh:

1. Decentralization is generally seen as a threat by politicians.
2. Local government institutions lack the necessary financial and human resources.
3. Local-level management capacities are inadequate.
4. Gaps between resource needs and availability.

5. There is a need for public-private partnership covering gaps in projects and activities; a legal framework for public-private partnership is needed.
6. *Upazila parishads* have a well-defined delivery system, but lack of resources and management skills makes it ineffective.
7. The union *parishad* as the lowest tier of rural local government needs an improved service delivery mechanism.

The following recommendations can be made to address these constraints:

- Need for national consensus on decentralization goals, objectives, tools, resources, legislation and capacity-building at all levels.
- Support decentralization with participatory monitoring and enabling policies.
- Capacity-building of national and local institutions.
- Promote good and accountable governance. (Participatory planning/social audit)

Role of local governments in poverty reduction in rural areas

1. Promotion of rural income and livelihood opportunities

The main avenue for income and livelihood generation is through local infrastructure development which provides seasonal wage employment. The Local Government Engineering Department (LGED) under the Local Government Division of the Ministry of Local Government, Rural Development and Cooperatives, is responsible for the following infrastructure development activities:

- a) construction of rural and feeder roads;
- b) construction of bridges and culverts;
- c) development of growth centres and rural markets;
- d) small-scale water resource schemes;
- e) tree plantation on road slopes and embankments;
- f) routine maintenance of roads;
- g) construction of school and office buildings, residential quarters and cyclone shelters.

In implementing these tasks, the LGED

- directly involves landless groups in infrastructure development works;
- eliminates intermediaries such as contractors;
- ensures fair wages to the landless.

The infrastructure development projects and activities of the LGED help create both short-term (seasonal) employment opportunities for the rural poor through construction work and regular employment through maintenance activities.

2. Improving access of rural poor to productive resources and building capacities for sustainable local resources management

The LGED has carried out a number of donor development projects with the participation of local people in the planning, implementation, operation and maintenance of the schemes. Emphasis is given to women's participation at all levels and in all stages of the activities.

3. *Empowering women, indigenous people, the disabled and other vulnerable rural poor*

Local government institutions are responsible for implementing a variety of central government programmes and projects such as:

- (a) community-based services for poor women and children, disabled and indigenous people, aged, other marginal most vulnerable rural poor;
- (b) agro-based rural development programme for women;
- (c) self-reliance programme for rural women;
- (d) vocational training of women for population activities;
- (e) day care services for children of working women;
- (f) technologies for rural employment with special reference to women;
- (g) rural women employment creation project;
- (h) integrated programme for women's participation in income generation activities and legal assistance.

The main thrust of all these projects is to integrate women in the development process through socio-economic activities to increase productivity and raise their living standards.

Proposed steps to strengthen the capacity of local governments

1. Strengthen legislation on decentralization to ensure better participation of women and disadvantaged groups.
2. Government should encourage local government institutions to develop partnerships and networks among themselves.
3. A Local Government Commission may be set up to safeguard the functions of local government and to monitor their performance.

Serajganj local government development project

The project, funded by UN agencies and bilateral donors, aims to promote increased participation of local people in local development issues; enhance the technical and managerial capacity of the union parishad leadership and foster transparency and accountability in local governance. The objectives of the five-year project started in July 1999, include the provision of infrastructure and socio-economic services to alleviate poverty and help build the capacity of elected local government institutions in Serajganj District which has 2.5 million people living in nine flood-prone upazilas and 81 unions.

Major project inputs

1. *Training of union parishad members on their roles and responsibilities and on technical matters.*
2. *Provision of support to the union parishads in revenue-generating activities.*
3. *Provision of block grants to the local bodies to undertake small infrastructure construction work that encourages participation of local people and promotes socio-economic development.*
4. *Training and social mobilization to enhance gender equality.*
5. *Support to develop monitoring system of the Local Government Division.*

Expected outputs

- 1. Increased people's participation and interest in local governance.*
- 2. Change in the perceptions of the intended role of the union parishad chair and members; also change people's perception about alternative ways of getting things done.*
- 3. Poverty alleviation.*
- 4. A gender sensitive governance system.*
- 5. Improved monitoring and information by the Local Government Division.*

Findings:

- 1. Local governance improved through 'extra' responsibility/authority and improved capacity imparted to union parishad members by the project.*
- 2. Increased women's awareness through their participation in project activities is likely to have the most enduring effect.*
- 3. A cohesive project team with NGO and government experiences is a very strong aspect of the project.*

The achievements of the project are largely dependent on the cooperation of local district and upazila administrations – which has so far remained positive but informal. Formalization of the relationship might be necessary for the future.

2

Decentralized rural local governance - the Indian experience

S K Singh, Head, Centre for Panchayati Raj, National Institute of Rural Development, India

The 73rd Amendment to the Constitution of India in 1992 mandated the establishment of a three-tier system of elected *panchayats* (councils) with the *Gram* (village) *Panchayat* at the lowest level, *Panchayat Samitis* at intermediate block level and *Zilla Parishad* at the apex district level. The *panchayats* are responsible for planning and implementing economic development and social justice schemes including those in relation to matters listed by the 73rd Amendment Act in its 11th Schedule. All states have enacted new laws or modified existing legislation in conformity with the 73rd Amendment. About 250 000 *Gram Panchayats*, 6 500 *Panchayat Samitis* and 500 *Zilla Parishads* have been duly elected.

Salient features of the 73rd Constitution Amendment

Continuity: The *panchayat* is elected for a five-year-term. Fresh elections must be held before the expiry of the term or within six months of dissolution of the body.

Gram Sabha: All registered voters in a village within the area of the *Gram Panchayat*, form the *Gram Sabha* which is a grassroots forum for discussing local needs and reviewing the working of the elected *Gram Panchayat*.

Reservation of seats: Besides reservation of seats for Scheduled Castes (SCs) and Scheduled Tribes (STs) on the basis of proportional representation, one-third of *panchayat* seats are set aside for women, including SC/ST. The offices of *panchayat* chairpersons are also similarly reserved for SC/ST and women.

Financial resources: An independent Finance Commission at the state level is to review and make recommendations once every five years for a sound financial base for the *panchayats*.

Operational constraints

There are many impediments affecting the functioning of the *panchayats* in several States with regard to structure, electoral process, rotation of reserved seats, devolution of powers, functions, control over local bodies and financial dependence.

Gram Sabha

Although meant to be a pivot of *Panchayati Raj*, the *Gram Sabha* has been sidelined in many cases. For participation in the *Gram Sabha* to be meaningful, it should meet periodically and not be too large a gathering. The 73rd Constitution Amendment does not make an explicit provision for this. Moreover, if a village *panchayat* covers more than one village, people from other villages either do not attend the *Gram Sabha* meeting or are reluctant to articulate their needs. Unless each village has a *Gram Sabha* of its own, the purpose of accountability may not be served, especially when the village *panchayat* has a large population.

Structure

While the *panchayat* at the district level is co-terminus with the administrative district, the jurisdiction of *panchayats* at village and intermediate level has not been specified

and has to be notified by the state. Determining an adequate area for a unit of administration is quite complex due to unevenness in terms of economic resources, communication facilities, population density, level of social integration, civic commitments, etc.

Reservation of seats

This has resulted in administrative and practical problems in some states with instances of the governing party not having even a single elected representative from the SC/ST or women category, when the chairperson's post was reserved for that category.

The rotation of reserved seats both SC/ST and for women among different constituencies in a *panchayat* has also posed practical difficulties. In other words, such rotation should take place at the end of every five years. If so, no SC/ST or women member will get the opportunity of occupying the same seat for a second term once the reservation is removed.

Financial autonomy

State legislatures have to enact laws to authorize *panchayats* to levy and collect taxes, duties, fees etc. (to raise resources), but these powers are vested with the *Gram Panchayat* in all states whereas other tiers have very limited financial powers.

A large-scale study conducted by the National Institute of Rural Development on functional and financial devolution to *Panchayati Raj* institutions in 20 states of India found a lack of commendable performance by the *Panchayats* in internal revenue mobilization. The majority of taxes assigned, particularly to the village *panchayas*, are not buoyant. In most states, except perhaps the tax on buildings and lands, several other taxes are unutilized because these are either economically less productive or politically less-feasible or cumbersome to administer.

The *Panchayati Raj* institutions also do not seem to have taken any initiative for resource mobilisation from existing revenue sources, for which they alone cannot be held responsible. Indian rural local governments are handicapped by the excessive control by state governments of their financial matters.

Relationship with bureaucracy

A review of the provisions in the states' laws on *panchayats* reveals continuing strong bureaucratic control over the village councils. Even where direct bureaucratic control is not visible, the *panchayats* are placed in such a position that they need bureaucratic approvals. A pertinent question arises whether the 73rd Constitution Amendment Act should have added a fourth 'Local List' defining *Panchayati Raj* powers to the Central, State and Concurrent Lists in the Constitution that demarcate Centre and State jurisdictions.

Besides bureaucratic resistance to working within the *panchayat* system, it is observed that politicians at state level are not positive towards *panchayats*.

Inadequate local leadership capability

Panchayat leaders, especially women, illiterates and *dalits* need capacity-building support for governance.

Positive aspects

Improved functioning of government social welfare schemes

In many places, *panchayat* meetings are being held regularly. Identification of beneficiaries through the *Gram Sabha* and *Gram Panchayat* is increasing. As a result, the delivery of services under government social welfare schemes such as the national old age pension, the national family benefit and national maternity benefit schemes has become more equitable.

Empowerment of women

The first election to *panchayats* after the 73rd Constitution Amendment brought nearly one million women into rural local self-government institutions. There is a near unanimous feeling amongst the women that they would have been unable to get into these bodies were it not for statutory representation.

Significantly, about 40 percent of the women elected to the *panchayats* are from the socially marginalized sections. However, the position of *panchayat* chairperson is generally occupied by women from the economically better off sections of rural society. Studies in the three largest states - Uttar Pradesh, Madhya Pradesh and Rajasthan – which rank among the lowest in social and economic performance with approximately one-third of India's rural poor, show that about 70 percent of the elected women were illiterate or could barely read or write.

Kamala Mahato, Bandoan, West Bengal State

Kamala Mahato is the elected head of the *panchayat* in Bandoan, a village of tribal and non-tribal people, most of them being farm labourers. To overcome acute water scarcity in the village, Ms Mahato had 10 tubewells dug in the village. She arranged loans under a government rural livelihood programme which enabled village women to start profitable poultry, dairy and livestock enterprises.

A sizeable proportion of the elected women had no previous political experience. The women representatives were generally supported by their families during the elections and in performing their new political roles. While women representatives from marginalized groups like the Scheduled Castes and Tribes felt they were representing group interests in the political arena, women from the better off social sections saw their election as helping to consolidate their positions.

The apprehension that because of their lack of basic education and previous political experience, the elected women would be manipulated by men has largely been disproved. Nevertheless, there have been some instances of men using the women representatives of their families as proxies, but these are more the exceptions than the rule. Indeed, the number of "no confidence" motions against elected women representatives, particularly from marginalized groups, has gone up precisely because they refused to compromise with the powerful sections of rural community.

Chamund Village, Haryana State

No one in this village of 1 200 people now goes to the police with a complaint as all contentious issues are resolved by the *Gram Panchayat*. Almost every child and girl in the village attends school. The *Panchayat* has used grants of over Rs 350 000 to build roads, a village school, dispensary, drains and other development works.

Fatima Bi, Kalva Village, Andhra Pradesh State

An ordinary housewife who could not read or write, Fatima Bi, elected *Gram Panchayat* head to a seat reserved for women in this village, has won the United Nations Development Programme (UNDP) *Race Against Poverty* Award from the Asia-Pacific region for her remarkable work as village council leader. Inspired in her new role by the angry, social justice-seeking heroine in a highly popular Andhra film, Ms Fatima began organizing women for developing the village.

Kalva soon had a metal road, a new school building and check dams. She initiated a Rs 200 000 scheme to dig a five kilometer irrigation canal and clear about 200 hectares of fallow land for paddy cultivation. On Ms Fatima's encouragement, the women began saving a small amount of money every month and within a year, 40 thrift groups with 300 women members had saved Rs 200 000. Impressed by this, the UNDP granted Rs 1.2 million as an interest-free loan to the Village Development Organization in Kalva. Managed by a committee of representatives of women's self-help groups, the village organization has Rs 2.0 million and loans granted by it have helped many families to start small rural enterprises. The enterprising women of Kalva have now started helping neighbouring villages with loans. Once poor and backward, Kalva now stands out as a well-to-do village with happy faces all around and modern amenities in almost all houses.

Many male administrators acknowledge that tremendous social energy has been released with the political participation of rural women who prefer to take up community issues rather than problems affecting a few individuals. Significantly, cases of corruption reported have become rare. The resulting awareness has generated a growing desire for education among rural women, particularly for girls so that next generation *panchayat* leaders are better equipped for their responsibilities.

The entry of women in public life has long-term implications for gender equity. Some change in the role of men within the rural family has been observed when women go to attend *panchayat* meetings. While the presence of women in *Panchayati Raj* institutions is still to make a dent in the rural power structure, elected women are engaged in power struggles once dominated by men.

Shakila, Kerala State

A Scheduled Caste woman in a low-income village household in Kerala State, Shakila stayed at home after passing her pre-degree examination. On the urging of a friend, she joined a women's savings and self-help group. Here Shakila met Leela who persuaded her to contest the election for the president of the village *panchayat* as the seat was reserved for Scheduled Castes. Initially, Shakila's father vehemently objected to this, but eventually yielded to pressure from the village women to let his daughter contest. Shakila also got support from a political party and won the election along with Leela.

As *panchayat* head, Shakila took some remarkable initiatives. She began meeting several women AIDS patients in the village who were ostracized by the community and even their own families. She also supported the children of AIDS patients. Her example was followed by many social workers and slowly these children were accepted by the community. Shakila organized AIDS awareness camps for the village.

However, Shakila had to face opposition in her work from her father and brothers who did not approve of her irregular work hours and travel to distant places. She faced sexual harassment from her male colleagues who even began spreading rumours about her personal life. The support of the women *panchayat* members helped her a lot, but Leela has lost all confidence and will not contest *panchayat* elections again.

Capacity building

The National Institute of Rural Development (NIRD) has developed a training needs assessment and training design for capacity-building of *Panchayati Raj* functionaries, both elected and officials who need technical, managerial, administrative and human/behavioural capabilities. The first involves basic technical knowledge of different subjects such as laws relating to *panchayats* and resource management. Managerial and administrative capabilities include mobilization of resources, coordination, monitoring and supervision. They also need behavioural capabilities to deal with officials and villagers, generate team spirit and resolve conflicts.

The training needs will vary from state to state and must be assessed at state and district levels. However, the following core issues are common.

- Understanding that *panchayats* are local self-government institutions and not arms for implementing state government work.
- Envisaging the primary task of *Panchayati Raj* institutions as planning and implementing schemes for economic development and social justice.
- Recognizing the village community's right to participate in *panchayat* decisions.
- Need for establishing vertical linkages between different *panchayat* tiers.
- Right of *panchayats* to link activities of different sectoral departments.

Target group

The training target group comprises an estimated 2.7 million elected *panchayat* representatives and 927 500 officials assigned or closely connected with the *Panchayati Raj* institutions.

Training target group

Level	Elected members	Officials	Total
District Level	13 484	27 500	40 984
Block Level	128 648	150 000	278 648
Village Level	2 580 286	750 000	3 330 286
Total	2 722 418	927 500	3 649 918

It is also proposed to train 100 Master Trainers from all over the country, who in turn will form teams to train about 2 500 other trainers across the country with an average of five trainers for each district.

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3

Decentralization experience in India's Kerala State

M. Thaha, Head, Centre for Micro Planning, National Institute of Rural Development, India

India's southwestern Kerala State is a good model of decentralization of state functions, and participatory planning and decision-making at the grassroots level.

Devolution of powers

Kerala transferred most development functions to local governments in 1995. Among others:

- local governments supervise all health institutions except medical colleges;
- high schools in rural areas have been transferred to the district *panchayats* and primary/secondary schools placed under village *panchayats*;
- all centrally sponsored anti-poverty programmes are planned and implemented by *Panchayati Raj* institutions;
- except statutory functions relating to juvenile justice, all social welfare functions are with local governments;
- *panchayats* have a key role in the development of agriculture and allied sectors, rural off-farm and non-farm jobs/enterprises and rural infrastructure.

Fiscal decentralization

Of all states in India, Kerala has seen the highest devolution of finances to local governments, with Rs 14 381 million or 37.72 percent of the State Budget transferred during 2002-03. About 90 percent of Plan funds are given in a practically untied form to local governments to prepare and implement their own schemes. At least 40 percent of this is to be invested in productive sectors, 10 percent is earmarked for gender-sensitive schemes and not more than 30 per cent to be used for road construction and maintenance.

People's campaign for planning in Kerala

The People's Campaign was a historical event in the development of the decentralization and planning process in the state. Its main objective was to enable *Panchayati Raj* institutions to prepare and prioritize a shelf of integrated schemes in a scientific and participatory manner for incorporation in the State's Ninth Five-Year Plan. The campaign was divided into phases, each beginning with the training of voluntary workers, officials and people's representatives at different levels.

The first step in the planning process was to conduct *gram sabha* meetings to identify and prioritize village-level development issues. Discussions were organized in 12 development sectors and facilitated by trained resource persons.

The second step was preparation of the *gram panchayat* development report by 12 committees set up by the village *panchayat*, each committee dealing with one development sector. The report for each sector was then discussed during a seminar at the *gram panchayat* level. Based on the discussions, 12 task forces of experts, officials and voluntary workers were set up to review programmes in each sector. The proposals made by the task forces were then prioritized and formulated into projects, which were classified according to the implementing agency at *panchayat*, cooperative, state government or private individuals' level.

Capacity building

The experience of the People's Campaign has underlined the vital importance of capacity building for the success of participatory local planning.

1. In order to provide the knowledge and expertise required for participatory local planning, resource persons were identified whose services were provided on a voluntary basis. There were 660 key resource persons to be trained who, in turn, had to train 11 808 district resource persons. The key resource and district resource persons together trained about 100 000 local resource persons.
2. The participants for the capacity-building training programmes included elected members, officials, resource persons and non-official experts. Besides 14 173 elected representatives, there were 20 000 officials working directly under local bodies and 40 000 sectoral officers who were to be transferred to the local bodies. There was an urgent need to re-orient these officials to shoulder the responsibility of local-level planning within a decentralized democratic set-up.

Phases of capacity building

The training was conducted in seven rounds corresponding to each phase of the planning exercise:

<i>Round 1</i>	organization of <i>gram sabhas</i>
<i>Round 2</i>	preparation of development reports
<i>Round 3</i>	drawing up projects
<i>Round 4</i>	drafting plan document
<i>Round 5</i>	integration of local plans/drafting higher tier plans
<i>Round 6</i>	plan and project appraisal
<i>Round 7</i>	implementation rules and procedures

Methodology

The training programmes were organised at state, district, block, *panchayat*/local level with different categories of participants. At the state and district levels, the training was for two to five days while at the block and *panchayat* level, it was for one or two days.

The method followed was lecture-cum-discussion sessions, group exercises, panel discussions, case studies and sharing of experiences by the participants. Emphasis was on self-study by participants. A hand book was prepared for every round of training with the help of experts and officials. In addition, 12 monographs on sectoral plan perspectives were prepared as a part of the second and third round. A comprehensive list and description of all current development programmes were distributed. The training material included nearly 3 000 printed pages and more than 12 hours of video programmes.

Weaknesses

There were difficulties in training task force members for the third phase in terms of conceptual clarity. Partly this was due to the difficulty of translating training concepts into the local language.

There were also difficulties relating to training for project formulation. Local bodies were involved in material production, infrastructure and services/welfare projects, but commercial ventures were rarely undertaken. Projects can also be classified as long or short term as well as on the basis of beneficiaries – whether households or larger groups. The project proposal format would therefore have to be flexible enough to accommodate all these variations. The officers who attended the training had no direct experience of project preparation. It took a month of discussion to design a project format for the campaign. Financial analysis was the weakest area in project formulation during the training. Similarly, project proposals also exaggerated the expected voluntary labour and financial or material contributions from local residents. The training focused too much on general tasks; there was not sufficient involvement of department officials and the monitoring was not adequate.

The large number of participants and their heterogeneous nature made it difficult to conduct the course effectively. The bureaucratic and hierarchical attitudes of the senior district officers made it difficult for the resource persons, most of whom were school teachers or lower-level government employees, to conduct the classes effectively.

The campaign also revealed the difficulty, in a mass training exercise, of maintaining even quality across simultaneous local training sessions taking place over a wide area.

Achievements

All *gram panchayats* have prepared development plans through people's participation and these have been integrated with block and district development plans. The plans have been implemented by the *gram panchayats* with people's participation and technical supervision by block and district officers. Schemes prepared at the block and district level, have been implemented by concerned departments.

As a result, there has been a significant improvement in the provision of basic needs. During the first two annual plans (1997-98 and 1998-99). 98 494 houses were built, 240 307 sanitary latrines constructed, 50 162 wells dug, 17 489 public taps provided, 16 563 ponds cleaned and 7 947 km of roads built. There has also been considerable improvement in the management of natural resources by local governments, particularly in the productive use of water resources.

Corruption has been reduced significantly in the selection of beneficiaries for different welfare/development programmes, in awarding construction contracts and in the purchase of raw materials.

Neighbourhood groups

In order to reduce the travel time for attending a *Gram Sabha*, neighbourhood groups of 40 to 50 families have been set up in selected *Gram Panchayats*. The representatives of these groups often constitute a ward committee which acts as the executive committee of the *Gram Sabha*. The neighbourhood groups provide a forum for discussing the local plan, reviewing plan implementation and selecting beneficiaries. They also help settle family disputes and supervise educational programmes for children as well as health and thrift schemes.

Empowering marginalized groups

A corps of tribal social activists has been formed from among educated tribal youth. They receive a monthly stipend of Rs 1 000 and help ensure greater participation of tribal people in the local development planning process.

Networking

Although voluntary organizations working in rural areas and *Panchayati Raj* institutions have similar goals, in most cases they work independently of each other. During the People's Campaign for planning it was felt necessary to rope in voluntary organizations and a provision was made to set up a Voluntary Technical Corps to assist in finalization of planning proposals by the *gram sabhas*.

Transparency

Documents relating to beneficiary selection, minutes of meetings, reports and all documents for works taken up by local government bodies have been made available to people on demand. At public work sites, essential information concerning implementation is displayed for public scrutiny.

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4 Local self-governance and local development in India: challenges ahead

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The Constitution of India visualizes *panchayats* as institutions of self-governance. However, most financial powers and authorities are to be endowed on *panchayats* at the discretion of state legislatures. This paper looks at the challenges ahead after a decade of decentralization in rural India following the 73rd Constitution Amendment.

Challenges

As emphasized by the “Decentralization and Devolution Panel” of the National Commission to Review the Working of the Constitution, *Panchayati Raj* institutions are to be viewed as institutions of local self-governance and not as mere implementers of centrally determined development programmes. Bottom-up comprehensive planning is to be the basis of self-governance and *Panchayati Raj* institutions should not be allowed to become the third tier of development administration.

Strengthening *Panchayati Raj* institutions entails clarity of their roles, systems of governance, accountability and transparency, and inter-linkages. Interventions in strengthening the *panchayat* system should focus on building, promoting and empowering women and socially marginalized sections to assume their new responsibilities.

Government, non-governmental organizations, academic institutions and the media should work together for

- awareness-building and sensitization on *Panchayati Raj* institutions, facilitating participation of the marginalised social sections and ensuring transparency and accountability in the functioning of rural local self-government bodies;
- education of voters for free, fair, peaceful and participatory *panchayat* elections;
- capacity building of elected representatives (specially women and *Dalits*) to help them discharge their roles and responsibilities in an effective way; and
- knowledge building on issues related to local self-governance and citizens' advocacy for promoting an enabling policy environment at all levels

Genuine devolution

There is a tendency among state and union governments to promote/establish parallel institutions/delivery systems for the implementation of government programmes and schemes that undermine the role of *Panchayati Raj* institutions. In most states, bodies like the District Rural Development Agency are still functioning independently. Sustained efforts are needed by civil society organizations, self-help groups, media and academics to exert pressure on state and union governments for effective devolution of functions and resources to enable *panchayats* to become institutions of genuine local self-governance.

Public education to promote people's participation in direct democracy

The empowerment of the *Gram Sabha* cannot be achieved merely by enacting legislation and issuing guidelines. As noted by the October 1999 report of the subgroup of the Task Force on *Panchayati Raj* set up by the Ministry of Rural Development, which dealt with empowering the *Gram Sabha*, a sustained movement should be organized to educate the people and train elected representatives and officials to internalise the *Gram Sabha's* potential as an institution of participatory democracy.

State and central governments should earmark adequate resources for such a campaign which should be linked with other public awareness campaigns such as for population control, pulse polio, safe drinking water and AIDS prevention. Civil society organizations can make people aware of *Gram Sabha* meetings and their agenda. They can mobilize people, especially women, *dalits* and tribals to participate in these meetings, put forth their demands and hold the *panchayats* accountable for local development.

Pre-election voters' awareness campaign (PEVAC) and training of elected *panchayat* representatives

The campaign was carried out by PRIA and its partners during the *panchayat* elections in Andhra Pradesh, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Rajasthan and Uttar Pradesh states. The main objectives of PEVAC were (i) to enhance participation in the elections, especially by women and *dalits*; (ii) to create an environment for free and fair elections; and (iii) to involve local civil society organizations in this. It also aimed to create a platform for further action by non-governmental groups to strengthen participatory democracy at the local level.

The campaign began with planning and strategy meetings with partner organizations, with each partner taking responsibility for campaigning in a particular locality. The actual campaign started about 15 days before the election. The message was spread through simple publicity material and folk entertainment. Public address systems mounted on vehicles played audio and video cassettes on the roles and responsibilities of citizens as voters.

A deliberate attempt was made to involve different types of organizations, including government departments, the State Election Commission, local administration and the media. Although PEVAC was initiated by a civil society organization, at a later stage, the campaign was owned by all- citizens, civil society groups, the media and government.

Impact studies by PRIA in different states have found that PEVAC was effective in educating people about their roles and responsibilities. Voting percentages were significantly enhanced in areas where the campaign was conducted. The election process was smooth in these areas and the number of dummy candidates was drastically reduced.

The awareness campaign created a vibrant network of civil society and government organizations. After the *panchayat* elections, the same network was used when PRIA undertook training of the elected *panchayat* representatives. The PEVAC network is also engaged in a campaign to mobilize and strengthen participation in *Gram Sabha* meetings.

Strengthening *Panchayati Raj* institutions

There are about three million elected *panchayat* representatives at village, intermediate and district level. Of these, nearly one million are woman and more than half a million are *dalits*. The majority of them are illiterate and new to political life with little or no prior knowledge of the working of *Panchayati Raj* institutions. The rigid patriarchal structure of rural society makes it difficult for village women to contest *panchayat* elections and, if elected, to participate effectively in *panchayat* meetings. Active participation is also not easy for the socially marginalized groups.

Capacity building is a long term and gradual process and must be integrated with the functioning of the *panchayats*. Both government and civil society organizations are providing training for capacity building and there is need for greater collaboration between them. For example, government organizations can train district *panchayat* members while NGOs and other civil society groups can provide training at other levels. Government line departments should assist *panchayats* in the implementation of local development schemes.

The government must create space for civil society to work with *Panchayati Raj* institutions without affecting their legitimate position. The role of parastatals should be redefined in relation to functions transferred to *panchayats* and arrangements made so they can work with *Panchayati Raj* institutions as technical support agencies.

5 Capacity building for participatory local planning and empowerment of rural women and rural poor through decentralization in Nepal

Mukti Prasad Kafle, Policy Specialist, Rural Access Program

The Local Self-Governance Act (LSGA) of 1999 sets out the following goals of decentralization in Nepal:

- grassroots participatory planning by all including ethnic communities, indigenous people and socially and economically backward groups;
- balanced distribution of the fruits of development;
- strengthening governance and service delivery capacity of local bodies;
- coordinated development efforts among government, donors, non-governmental organizations, civil society and private sector;
- enhanced cost effectiveness and service efficiencies;
- development of local leadership and accountability of local bodies to local people;
- private sector participation in providing basic services for sustainable development.

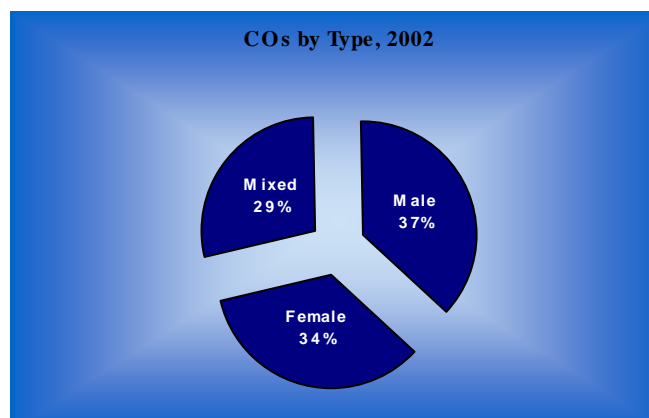
The two-tier local governance system is made up of the village development committee (VDC) and the district development committee (DDC). Every VDC has nine wards, each with a five-member elected committee, including one woman member. The nearly 4 000 VDCs in the country's 75 districts have been given the responsibility by the LSGA for implementing basic health education and sanitation programmes, running primary schools and literacy classes as well as community health centres. The local bodies carry out most of their activities through user groups, community-based organizations and community organizations.

Empowerment of women and pro-poor governance

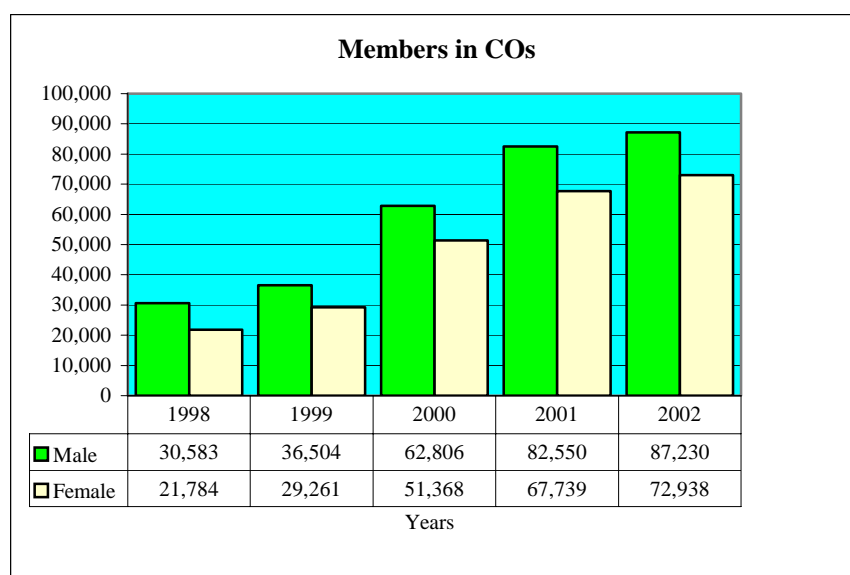
The LSGA provides for representation of women and disadvantaged groups in local governance bodies. There are about 40 000 women members of local government bodies. The number of women in leadership roles in rural community activities is increasing. Similarly, women's participation in local-level planning and decision-making is also increasing.

With the formation of female and mixed community organizations, rural women are actively participating in the planning, implementation as well as management of local development programmes and projects. Such changes have also transformed the role of rural women within the home. Once limited to household chores, they are now managing the household budget. The positive impact of women's empowerment can also be seen in reduced social problems such as gambling and alcoholism among men as well as child marriages.

Community organizations in 30 districts



Male groups: 2 554;
 Women's groups: 2 345
 Mixed groups: 2 024.



Source: Annual Report 2002, LGP.

Civil society and private sector participation

Non-governmental organizations and the private sector are getting increasingly involved in the provision of basic services. The LSGA allows local bodies to work in partnership with NGOs and the private sector. All government and/or semi-government agencies engaged in development activities have involved NGOs in programme implementation.

The involvement of NGOs has given momentum to social mobilization by creating self-help organizations and community women's groups engaged in activities ranging from savings/credit to forest management.

Village development programme

The Village Development Programme (VDP) works for poverty reduction by forming community organizations (COs). The programme aims to support local communities and local governments in institutionalizing community organizations as self-governing and self-sustaining institutions to facilitate participatory development.

The social mobilization process has five stages:

- formation
- graduation
- entrepreneurial development
- implementing productive activities
- linkage with other institutions/organizations

The Local Development Fund (LDF) is the executing agency for the implementation of the VDP. The fund facilitates and helps COs to mobilize and manage resources for development activities. It organizes training programmes for capacity building of community members, and monitors, supervises and evaluates the development process. On becoming self-reliant grassroots institutions, the COs start expanding links with line agencies, banks and other institutions.

The Village Development Programme has produced the following positive impacts:

- active participation of the local people in development activities in their area;
- rural people are generating capital through weekly saving schemes and have initiated several income generating activities;
- COs are mobilizing both internal and external resources for local development;
- COs are becoming self-governing and self-reliant institutions;
- increasing participation of women in planning, implementation and management of development programmes and projects;
- women are actively campaigning to reduce social evils;
- active participation of community members has generated a spirit of healthy competition for initiating local development activities;
- encouraged rural communities to make themselves heard by authorities.

Women sway majority in their favour

The people of Kurumche village in Nibuwakharka VDC of Syangja district formed themselves into a mixed community organization. While making community-level plans for infrastructure development, they had to prioritise their needs because of resource constraints. The men wanted a farm irrigation scheme, but this was not acceptable to women who said drinking water was more important. The issue was debated for months and finally, the women's priority was accepted. There have been similar instances of women asserting their needs in other villages, for example, opting for biogas plants above irrigation schemes and succeeding in obtaining a majority in favour of their preference.

Source: Nepal Human Development Report 2001.

Federation to be reckoned with

The Federation of Community Forest Users (FECOFUN) comprising of more than 4 500 forest user groups in 63 districts of Nepal is effectively protecting interests of the rural poor who depend on the country's forests for food and livelihood security. Thus, when the government prepared a forest management plan for a district without consulting local government bodies or forest user groups and contracted an international agency to manage the project, FECOFUN began an awareness campaign to sensitize local communities and the government. Under pressure, the government initiated a local consultation process which led to a change in the original plan and the cancellation the contract.

In another case, the Department of Forestry and FECOFUN worked together to revise the prevailing Forestry Act. In particular, both agreed upon two particular clauses. However, these were not included in the proposal tabled in the national parliament. As a result of FECOFUN's lobbying with lawmakers, the proposed act was sent back for revision.

Source: FECOFUN Annual Report 1999/2000, October 2000.

Awareness pays

On receiving a NRs 65 000 grant for an irrigation scheme, the members of the Langkhoriya community organization in Daraun VDC of Syangja district, committed themselves to being accountable for any misappropriation of the funds. The money was handed over to the rural technician who was sent to buy construction material, but returned empty-handed and told the villagers that the payment had to be made in advance.

However, the material did not arrive and for a while, the villagers were unable to recover the money from the technician. Reminded of their commitment when the time for repayment came a year later, the villagers mobilized all community organizations in the VDC to recover the funds, which were finally restored with 18 percent interest. A new technician was appointed who did the work in 6 months.

Source: Human Development Report, 2001.

Farmers no longer in clutches of loan sharks

Before the launch of the village development programme in Dhodhari VDC of Bardiya district, local farmers used to borrow from local moneylenders at steep rates of interest. They pledged the growing crops as collateral on the basis of the price fixed by the moneylenders, which was less than half the real price.

The VDP intervention has enabled the villagers to mobilize their savings to meet their credit needs. In addition, they can also get funds from the LDF. They no longer have to sell their crops before the harvest at a much lower price.

Source: Annual Report 2002, LGP.

Village woman becomes entrepreneur

Alaichi Karki has become a rural entrepreneur thanks to the village development programme launched in her village Sabitra in Devitar district, which led to the formation of a savings/credit group. Ms Karki bought two goats with a loan from the group. She sold them after six months to repay the loan and still had a profit of NRs 4 500. With the profit she bought more goats and they now have a market value NRs 10 000.

She could not even have thought of starting a business before the village development programme because this would have meant borrowing from the village moneylenders at a very high interest rate. She now plans to diversify her business into vegetable farming.

Source: Annual Report 2002, LGP.

Assessment of decentralization experience

Organizational structure

The number of representatives is too high compared to local government revenue. More than 90 percent of the VDCs and 25 percent of DDCs depend entirely on government grants to pay salaries of employees and elected officials. Several local government bodies are spending more on unproductive activities than on human resource development and poverty reduction.

Management

There is a high turnover of staff. The government has not yet formulated legislation for local service. As more tasks and responsibilities are devolved to local bodies, there will be a greater need for competent staff. The absence of a road map for decentralization poses a great risk of failure in the devolution process.

Efficiency

There is weak coordination at all levels, particularly between local bodies and line agencies due to a number of factors such as the central government command structure, overlapping functions between local governments and line agencies and sectoral budgetary allocation outside the local government framework. Participation of civil society, NGOs and the private sector in local government planning and service delivery is weak and uncoordinated. Civil society organizations such as users' groups and NGOs often become the tools of the local elite. However, where social mobilization in VDCs is promoted by community organizations, the programming and negotiating capacity of local societies have increased.

Access, equity and empowerment

Rural women and weaker social sections such as *dalits* have inadequate access to local government resources and decision-making. Only 3 percent of elected DDC members are women. The socially marginalized groups find it difficult to contest elections to local governments because of the expenses. Although included in users' groups and community organizations, they are unable to effectively articulate their needs or make known their minds.

Fiscal capacity

Fiscal decentralization has been neglected. The current share of local governments in the national budget is less than 4 percent and declining. The financial capacity of different DDCs and VDCs varies greatly due to natural endowment and geography. But there is no mechanism for reducing disparities between poorer and richer districts. Moreover, local governments lack adequate capacity for financial management.

The LSGA provides for sharing of revenue. However, the procedures for sharing the revenue generated by tourism, forests, natural resources and electricity are still to be developed. The dependency of local bodies on state grants is growing

Women's empowerment and participation in development activities

The LSGA has reserved 20 percent seats in ward committee for women and at least one woman has to be nominated to the VDC and DDC. While this has made more than 40 000 women members of local bodies, no woman has so far been elected DDC chairperson. The legal provisions have only partially empowered the socially marginalized groups as upper castes tend to dominate public decision-making.

A 1994 study of seven forest users' groups in eastern Nepal found that only 23 women (3.5 percent) were heads of households. Most women members of the executive committee of these forest groups were nominated and unaware that they were participating as members of the executive committee.

Transparency and accountability

Transparency and accountability practices are weak at central and local levels of governance. Supervision, monitoring and evaluation are very weak at the central level. Narrow partisan and political biases prevail at the local level.

A number of local government bodies do not meet regularly. It is estimated that 75 percent of the ward committees neither hold a meeting nor inform the public how they have used the funds raised. Irregularities in audit reports are seldom addressed. Most VDC meetings are held without an agenda and influential members are able to push through their priorities. Local elites are able to dominate because elected officials often lack both the capacity and guidance to discharge their responsibilities.

The LSGA has specific provisions to ensure transparency and accountability in local governance such as a council for approving programmes/budgets, an obligatory requirement for local bodies to make programmes, budgets and decisions public, specific criteria for planning and priorities, and internal and external financial audit systems. Elected officials have to declare their personal assets within one month of taking office.

In the absence of clear provisions in the Constitution, the decentralized system of local governance is vulnerable to executive discretion and uncertainties. The Maoist insurgency also has disrupted the decentralization process with local government representatives being forced to resign and others abducted. Many VDC buildings, health posts, police posts, postal houses have been destroyed by the insurgents.

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6

The present status of decentralization in Nepal

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Introduction

Systematic efforts towards decentralization in Nepal began in the 1960s with the establishment of separate district, municipality and elected village level *panchayats* with the authority to make policy, implement programmes and levy taxes. The 1990 Constitution stipulates as the chief responsibility of the state, the establishment of conditions suitable to the wider participation of people in the governance of the country.

However, the Village Development Committee (VDC), Municipality and District Development Committee (DDC) Acts of 1992 did not institutionalize horizontal accountability of line agencies to local government bodies. There was inadequate coordination between line agencies and local bodies in planning and implementing programmes with duplication of tasks and responsibilities. To overcome these problems, the newly elected local bodies demanded authority over line agencies.

The recommendations of the 1996 Decentralization Coordination Committee headed by the Prime Minister formed the basis of the Local Self-Governance Act (LSGA) of 1999. The LSGA is the most comprehensive piece of legislation with far reaching consequence that Nepal has ever implemented in respect of decentralization and local governance.

SWOT analysis of decentralization in Nepal

STRENGTHS

Unified Act: The LSGA integrates three local bodies (VDCs, Municipalities and DDCs).

Division of functions: The Act has attempted a division of roles and functions between central government agencies and local bodies by devolution of a wide range of sectoral functions instead of by delegation and deconcentration.

Provision of guidelines for annual planning: DDCs must receive estimates of budget ceiling and guidelines from the central government in advance for each fiscal year.

Participatory planning: The LSGA has sought to institutionalize bottom-up participatory planning. Each level of local body has to follow the bottom-up planning approach and prepare a resource map of its own area. Each level has to prepare its periodic plan on which annual plans need to be based.

Development of information management system: The Local Governance Programme (LGP) and Rural Urban Partnership Programme (RUPP) information management system has been developed in the district and municipal area which has enhanced efficiency. Twenty two districts have prepared district profiles, 22 districts have prepared analytical resource maps and 17 districts have prepared analytical poverty maps (UNDP, 2003). These have helped the DDCs in preparing more realistic, periodic as well as annual plans of their respective areas.

Fiscal provision: Local bodies can generate their own resources, obtain grants/fiscal transfers and borrow from banks. A Local Authority Fiscal Commission is working actively. Some local bodies have become financially sound (Nepal, 2004:2).

Representation of women: One woman member is compulsorily nominated to each VDC and DDC council and at least one to each VDC executive committee, municipal board and DDC board. Likewise, one seat has to be filled by a woman through election in each VDC and municipal ward committee.

Voice to disadvantaged groups: Marginalized groups have representation in VDCs.

Local Service Commission: A Local Service Commission for local bodies.

Support of other agencies: District level government offices have to provide necessary support to local bodies, as and when necessary.

Provision of DIMC: Provision for a Decentralization Implementation and Monitoring Committee (DIMC) to monitor and ensure implementation of LSGA in accordance with its objectives, policies and provisions.

Mobilization of COs and NGOs: Mandatory provision for local bodies to involve local communities/beneficiaries in identifying projects/programmes, implementation and maintenance of development projects. This has occurred through self-help users' committees, community organizations (COs), women's groups and non-governmental organizations.

Citizen chart: Forty four districts have prepared and introduced citizen charts which will enhance public confidence in the local bodies.

Mobilization of external resources: Some local bodies have been able to mobilize external resources by directly signing MOUs with donors getting government pre-approval.

WEAKNESSES

Old mindset: Central line agencies continue to regard local bodies as subordinate agents of local development rather than autonomous units of local self-governance.

Poor linkage between municipality and DDC: No functional and institutional linkages, the only link between the two being election-related. Municipality members participate in DDC elections.

Limited role of ward committee members: Ward committees lack both financial and human resources to fulfill assigned roles and functions. Many ward committees could not meet even once.

Limited institutional capabilities: Very few local bodies have been able to satisfactorily carry out the given tasks, particularly the VDC which is the focal point for decentralization. The VDC has only a secretary and a technical assistant. Some VDCs do not even have a secretary.

Planning overlap: The planning processes of local bodies and government line agencies often overlap.

Limited revenue capacity: The LSGA authorises local bodies to impose and collect taxes, service charges and fees. However, revenue generation by local government bodies is inadequate and they depend largely on grant.

Lack of grant criteria: Grants are distributed equally to all VDCs irrespective of their size, population and development status.

Partisan politics: Executive members in almost all the local government bodies represent more than one party and partisan political interests influence the functioning of the local bodies. In some cases, conflicting interests have stalled the functioning of local bodies. Partisan political affiliations also affect the relation of local bodies with the central government if the latter is formed by a rival political party.

Status of local civil service: There has been little progress towards setting up a local development-oriented civil service accountable to local bodies as required by the LSGA.

Unsuitable nomenclature: The designation of local bodies as committees does not convey their true role as focal institutions for local self-governance. It is not easy to make people understand what these committees stand for.

Contradicting laws: Several laws are at variance with LSGA provisions, creating obstacles for local bodies in their work.

Too many units: There are too many VDCs and DDCs. The determination of territorial jurisdictions of local bodies is not scientific.

Programme priorities: Most local bodies are focusing on infrastructure development rather than income generation and poverty reduction.

Governance: Local bodies, especially VDCs have not been effective in terms of inclusion and participation at local level in governance. Utilization of financial resources is also inadequate.

Functioning of DIMC: The DIMC was set up to monitor the implementation of the LSGA. Very active in the beginning, it needs to regain the earlier momentum.

OPPORTUNITIES

Favourable international environment: Multilateral and bilateral development agencies are giving priority to decentralization issues.

Competitive political environment: Political parties and the intelligentsia are in favour of decentralization and local self-governance.

Representation in national assembly: The provision for the election of 15 local body representatives to the National Assembly enables local governments to voice their concerns/interests at apex national level.

Development of local leadership: Local bodies can be training grounds for developing political leadership.

Local civil service: The provision for a local civil service can help in attracting professionals to local bodies.

THREATS

Lack of constitutional provision: There is no constitutional provision for local self-governance, which is mandated only by the LSGA that can be changed by a simple parliamentary majority.

Political violence: The Maoist insurgency has adversely affected the functioning of local bodies.

Political culture: The centralized political culture impedes the process of decentralization.

Parliamentary constituency development fund: The constituency development fund for members of Parliament goes against the principle of local self-governance. In some districts, this fund was more than the grant to the district.

Regional administration: Regional Administration Offices functioning as deconcentrated units of the central government can conflict with and contradict the role of local bodies.

Government policy/strategy and programme

The poverty reduction strategy is based on four pillars: high and broad-based economic growth; focus on the rural economy; human resource development through effective delivery of basic social services and economic infrastructure; and inclusion of the poor and marginalized. The main strategies being adopted to achieve these objectives include:

- devolution of basic service delivery function;
- capacity building of local bodies;
- decentralization of certain revenue functions.

Capacity-building needs of local bodies

Local bodies need capacity development in the following areas:

- Strategic management.
- Participatory planning and management.
- Financial management.
- Information management system.
- Leadership development.
- Organizational development.
- Project monitoring and evaluation.
- Orientation on LSGA and decentralization.
- Gender and development.
- Political awareness and leadership development for elected and nominated women representatives.
- Conflict management and negotiation skills.
- Office management.
- Partnership building with civil society and business sector.
- Facilitation skills.

The Tenth Plan set a target to train 1 200 DDC officials, 50 000 VDC officials, and 1 500 municipality officials in the first and second years after the election. In the case of the VDC, there is provision for the establishment of an information system, a computerized accounting system, social mobilization, and self-employment programmes.

The Local Development Training Academy (LDTA) was established in 1993 with the mission of enhancing managerial and administrative capabilities of local bodies. Over the years, LDTA has developed a number of training packages and trained thousands of local representatives and employees of local bodies. Donor agencies are also supporting capacity development of local bodies in Nepal in core areas.

LDTA training

<i>Training package</i>	<i>Recipients</i>	<i>Duration</i>
Orientation on LSGA	DDC representatives/employees/Line agency officials/Municipal representatives/employees.	2-day
DDC planning process	DDC representatives/employees	5-day
District HRD	DDC representatives/employees	5-day
Participatory planning process	DDC & Municipality employees/DDC Partner NGOs	10-day
Development of district facilitators	District people	6-week
VDC planning process	VDC representatives/secretary	7-day
Local governance	VDC representatives/secretary	4-day
VDC account	VDC secretary	7-day
Political awareness and leadership development	Elected/nominated women representatives at village level	6-day
VDC management	VDC secretary	5 weeks
VDC planning & account management	VDC secretary	11-day

Conclusion

It is often said that the LSGA has devolved powers and functions to local bodies for which they are not prepared. The first and the foremost challenge for effective local governance is enhancing the capabilities of local bodies. This requires coordinated efforts among local bodies, government, donors, NGOs and training centres.

Moreover, local body autonomy is greatly restricted by the dependence on central grants and local government institutions need technical support for mobilizing internal/own resources. It is equally important for the central bureaucracy to change its mindset and the political leadership at the central level to have trust in local bodies. Elections to local bodies could not be held due to the Maoist insurgency which has set back the process of decentralization.

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7

Local governments in Nepal: reappraising provisions for empowering vulnerable rural poor

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Marginal groups

Nepal is a multicultural society with different ethnic groups and religions. The three broad civilization traditions are Tibeto-Burman in the northern mountains, Indo-Gangetic in the southern Terai plains and a mix of the two in the middle hills (Shrestha, 2000). A 1996 government task force on Indigenous communities of Nepal identified 61 distinct *Janjatis* (ethnic groups) which do not fall under the Hindu hierarchical caste structure and have their own language, religion and traditions.

Among the indigenous groups, only the *Newars* have an average income that is above the national poverty level. Others like the *Gurungs* (45 percent), *Tharu* (48 percent), *Rai* (56 percent), *Magar* (58 percent), *Tamang* (58 percent) and *Limbu* (71 percent) live mostly below the poverty line.

Apart from the ethnic groups, approximately 15 percent of Nepal's 23 million people belong to the untouchable castes (*Dalits*). *Dalit* settlements have not received adequate priority from development projects. Untouchables are also under-represented in public institutions.

Rural women in Nepal have lower levels of literacy compared to men, lack property rights and assets, have limited decision-making roles, and work longer hours per day (Uprety, 2003).

It is estimated that approximately 12 percent of Nepal's population suffers from various types of disability. The Maoist insurgency has physically disabled thousands of people and hundreds of thousands of people are internally displaced.

Constitutional protection

Article 11 (3) of the Constitution of Nepal maintains that special provision may be made by law for the protection and advancement of women, children, the aged, the physically or mentally incapacitated or those who belong to an economically, socially or educationally backward class.

The Constitution also bans untouchability. Article 11(4) prevents the state from denying access to any public place or depriving any person of the use of public utilities on the basis of his or her caste (Dhungel, Adhikari, Bhandari & Murgatroyd, 1998).

The Local Self-Governance Act, 1999 reserves 20 percent seats for women in local bodies especially at the ward committee level.

Women's participation in local government:

<i>Local bodies</i>	<i>Total representatives</i>	<i>Women representatives</i>	<i>Women's share %</i>
Districts Councils	10 000	150	1.5
District Development Committees	1 117	75	6.7
Municipalities	4 146	806	19.5
Village Development Committees	50 857	3 913	7.7
Village Councils	183 865	3 913	2.1
Ward Committees	176 031	35 208	20.0

Source: Election Commission of Nepal, 1999

Dalits and disadvantaged groups in local government bodies

The LSGA provides for representation of disadvantaged groups in local bodies. However, these groups are not properly defined. Although Indigenous groups and *Dalits* have been defined and identified and most indigenous groups and *Dalits* are disadvantaged, not all disadvantaged groups come under this definition. Disadvantage and deprivation varies in terms of regions or even the social context.

Adivasis and Janjatis in the DDCs

<i>Region</i>	<i>Members of indigenous population/nationalities</i>	<i>Total DDC members</i>	<i>Proportion of indigenous groups to total members</i>	<i>Percentage of district population</i>
Mountain/hill region	255	725	35.2%	40.8
Inner Terai & Terai	97	414	23.4%	29.2
Total	449	1 553	28.9%	39.8

The representation of indigenous groups in the DDCs has increased substantially. In 13 mountain districts, *adivasis/janjatis* have between 50 to 100 percent representation in DDCs.

Proportion of Adivasis and Janjatis in VDCs & Municipalities

<i>Region</i>	<i>Proportion of indigenous population/nationalities to district population</i>	<i>Total VDC members</i>	<i>No. of Hill/Mountain IP/N members</i>	<i>Percentage</i>
Mountain/Hill region	40%	25 769	9 160	35
Inner Terai & Terai	29.2%	17 604	2 014	11.4

The participation of hill *adivasis/janjatis* in village-level local bodies is encouraging as their representation of 25.8 percent is more than their share – 21.1 percent – of the total population. The hill *adivasis/janjatis* had a clear majority in the village-level representation.

Local development priority

The LSGA confers mandates and competencies on local bodies to plan and implement activities to address needs and demands of the people especially the disadvantaged and vulnerable. The Village Development Committees are required to maintain databases of vulnerable sections, including orphans and children with

disabilities. Section 28 (1) (8) of the LSGA authorizes VDCs to "launch activities to protect orphans, helpless women, the aged, the disabled in line with the national policy and carry out functions to eradicate social malpractices and to protect girls and women."

However, the allocation pattern of resources for the social sector is very discouraging and local bodies are inclined to select physical and infrastructure development projects rather than human resource and social development schemes.

Dispute resolution

The LSGA authorizes VDCs to constitute mediation boards for dispute resolution at the local level. Women and people from backward groups have to be included in the boards.

Social security

Distribution of social security grants is the responsibility of local bodies. Three groups are eligible: i) citizens above the age of 60 years, ii) destitute women including widows above the age of 60 years and iii) persons with severe disabilities above the age of 16 years. The names of beneficiaries should be recommended by the committee set up for this purpose in each VDC.

Conclusion

Although the Local Self Governance Act provides for participation by women, untouchables and other marginalized groups in local governance, the provisions for representation in committees and the working structure do not guarantee protection of the interests of the vulnerable sections. Women's representation is also not adequate, particularly at the decision-making level. Women and vulnerable groups lack adequate capacity for understanding the intricacies of the laws and processes of local self-governance.

It is not enough to have legal provisions for empowerment. The weaker sections must be enabled to articulate their needs and demand protection of their rights. Local government institutions should be sensitized to the needs of the marginalized sections. This requires capacity-building training for office bearers of local bodies.

Local bodies should be oriented to make citizen empowerment a matter of priority. Citizens' voice initiatives need to be built into the legal and formal structures of the system

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8

Role and experience of local governments in financial resource mobilization in Nepal

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Expenditure pattern of local bodies

In Fiscal Year 1998-99, the total expenditure of 32 District Development Committees (DDCs) from 'own sources' was NRs 20 million. The major items of expenditure were public works (28.2 percent) and human resources (20.4 percent) with salary and allowances accounting for 20.4 percent. Most DDC expenditure is supported by the central government. Dependency of the DDCs on central grants ranged from 83.7 percent of the total DDC expenditure in Bardia district to 99.6 percent in Bajura district. The higher the elevation of the district, the greater is its dependency on grant (Gurung, 2002).

The expenditure by DDCs of their own resources on administrative and contingency purposes was 67 percent in 1997-98 and 60 percent in 1998-99 while in the same years, 33 and 40 percent respectively were invested in development programmes. The expenditure pattern of the grant for the same years was different with 36 and 49 percent allocated for administrative and contingency purposes, and 64 and 51 percent for development related works.

The expenditure pattern of the Village Development Committee (VDC) is encouraging in comparison, with 60 percent of the grant amount and more than 65 percent of own resources being used for development programmes. An analysis of available data shows that the share of local bodies in total public expenditure is about 4 percent and is declining. Their share in local revenue is about 7.39 percent and also decreasing.

Issues related to expenditure responsibilities

1. The Local Self-Governance Act (LSGA) requires ministries/departments to define tasks for each level of local government. This has not been operationalized in practice.
2. The central government should amend provisions of sectoral acts which are in contradiction with the LSGA.
3. The central government needs an institution for mediation between relevant government agencies.
4. Expenditure responsibilities have to be categorized according to the capacity of the local bodies which differs from VDC to VDC and between one DDC and another.
5. Sectoral funds must be channeled through the respective local bodies as per the tasks defined by line departments/ministries. This will help build local government capacity and promote responsibility among local bodies.

6. The Local Bodies Fiscal Commission (LBFC) has approved the Road Map of the Fiscal Commission to undertake a study and come up with recommendations.

Resource mobilization by local bodies

Taxes

The revenues assigned to local bodies by the LSGA mainly include house and land tax, vehicle entrance tax, business tax, service charges and a number of fees. The VDC can also improve the natural resource utilization tax while the DDC can levy a tax on the use of roads, bridges and canals constructed or maintained by the DDC besides taxing the commercial use of locally available raw material. District bodies can earn income from natural resources within their jurisdiction such as from the sale of sand, stone and wood drifting on rivers.

Issues related to tax base of local bodies

1. There is a tax overlap among the different local government levels, especially with regard to natural resources such as sand, stone and gravel, and between the central government and local bodies in case of the vehicle tax. This has led to conflict among central government and local bodies.
2. Local bodies have little flexibility in fixing tax rates. The major potential source of revenue is the land and house tax. But the rate of land tax is so nominal that there is little incentive to collection. In some VDCs, the land tax is not enough to cover the cost of printing the tax collection receipt. As the VDC does not have the authority to increase the land tax, most VDCs in the mountains hardly utilize this revenue source even though people are keen to pay the tax to secure evidence to land.
3. Most natural resource and environment-related taxes are based on renewable goods which are generally collected through contractors. This has decreased the administrative cost of collection but has led to negative impact on the free mobility of goods, business and industrial productivity. Most entrepreneurs are opposed to this method of revenue collection.

Income pattern of local bodies in Nepal

Data on revenue income of local bodies from different sources shows that while the DDCs own source of income increased from 13.9 percent in 1998 to 19.8 percent in 1999, there was negligible increase in the VDCs own income from 25.7 to 26 percent in the same period. The revenue performance of the VDCs is weak because of: i) limited staff; ii) weak capacity; and iii) irregular transfer of revenue and non-provision of technical assistance from concerned agencies.

Fiscal autonomy indicators of DDC

Average	8.00 %
Range	0.005- 55 %
Geometric mean	2.4 %
Median	2.00 %

Source: Local Authorities Fiscal Commission's report 2000

Fiscal autonomy Indicators of VDC

	1997-98	1998-99
Average %	25.7	26
Range %	0.04 to 97.1	0.1 to 96.9
Geometric mean (75 VDCs) %	5.6	5.5
Median %	5.6	6.3

Source: Report of Local Authorities Fiscal Commission, 2000.

The above tables clearly show that the VDC has more fiscal autonomy than the DDC. However, the gap among DDCs is less than the VDCs. The VDCs dependency may be higher because they are not assigned any expenditure responsibilities.

Intergovernmental fiscal transfers

Vertical and horizontal fiscal balance

The available data on local bodies' expenditure and income is not sufficient to analyze the vertical and horizontal fiscal balance. Given the narrow tax base and limited discretion of local bodies over the tax rate, and the central government's dominant role in public sector spending, revenue collection and macro economic stability, it is fair to assume a high degree of vertical imbalance between central and local governments in Nepal (Shrestha, 2002).

The main causes of horizontal fiscal imbalances are i) different economic mandates and opportunities within the jurisdiction of local bodies; ii) differences in the local natural resource conditions; and iii) differing capacity of taxation resource mobilization.

As seen already, most local bodies are heavily dependent on central transfers in the form of

- a) administrative grants; and
- b) development grant which comprises i) general purpose block grant and ii) conditional grant.

DDC block grant

The DDC unconditional block grant is composed of:

1. Administrative grant which covers staff salaries, including the salary of the VDC secretary. The inclusion of the salary of VDC secretaries under the DDC administrative grant has the following implications:
 - VDC autonomy is undermined;
 - increased administrative costs of DDCs;
 - more administrative control over VDC secretaries.
2. The development grant is transferred from the Ministry of Local Development to the DDC on the basis of the poverty-sensitive equalization formula, recommended by the Local Bodies Fiscal Commission, which is derived from the following:
 - HDI (human development index) 50%
 - Population 20%
 - Area 10%
 - Cost of service delivery 20%

The four types of sectoral grants transferred to the DDC are related to:

- health sub-centre
- primary school
- agriculture/livestock
- small infrastructure

The transfer of block grant according to the above criteria-based formula has the following advantages:

- transparency in allocation;
- reduces scope for political interference;
- provides certainty;
- brings equity and vertical balance.

However, the formula is open to criticism as i) the weight given to HDI is not based on a proper district-wise study; ii) fiscal incentives for revenue efforts are not calculated; iii) performance measures are not undertaken; and iv) sectoral grants are not transferred on the basis of criteria of expenditure assignments.

Revenue sharing

The central government shares revenue with the DDC which in turn shares its income with the VDCs. Similarly, the VDCs share their income, especially land revenue, with the upper tier of local government.

<i>Source</i>	<i>Rate</i>	<i>Remarks</i>
Land and housing registration fees	5-90%	Recently in regression
Royalty from mines	50%	
Royalty from forest	10%	
Royalty from hydropower generation	50%	12% to dam site location district remaining 38% to other districts in the region as decided by relevant DDCs.
Revenue from tourism	30%	Substantial transfer to LBs but not distributed equitably.

Revenue transfer to DDCs in 2002-03

<i>Source</i>	<i>NRs</i>	<i>% of total share</i>
Land registration fee	214 953 438	55
Royalty from hydropower	118 724 910	30
Royalty from forestry products	39 826 483	10
Royalty from mines	11 251 609	3
Royalty from trekking	6 522 703	2
Royalty from mountaineering	NA	
Royalty from National Parks	NA	
Total	391 356 440	100

Last two items still to be decided

NA – not available

Land revenue and electricity are the main revenue sources. The high potential of the tourism sector is yet to be realized and can directly enrich mountain districts where trekking and mountaineering are concentrated. The resources from land registration are high in big cities where land sales/transactions are high.

The rate of revenue sharing from mountaineering is not yet decided and sharing will start from this fiscal year. Revenue sharing from hydro-electricity generation has been raised to 50 percent of which 12 percent will be retained by districts where the powerhouses are located. The balance 38 percent would be distributed according to criteria agreed upon by districts within the region. This increased royalty will presently enrich only the central and western regions where most powerhouses are located. Similarly, the income from mines is limited to some districts.

Resource mobilization through private sector/civil society organizations

There is not sufficient information about resource mobilization by local bodies in partnership with the private sector, NGOs, CBOs and other civil society groups. The Public-Private Partnership Policy for Local Bodies is a milestone in the development of this partnership. The policy has to be incorporated in the Local Self Governance Rules. Procedures, norms and appraisal systems have to be installed at the local level. A support and back-up system is needed at the Ministry level to encourage local bodies, strengthen their monitoring capacities and to provide technical assistance. A database has also to be created to keep track of investment by the private sector in capital and infrastructure generation and in the social sector.

Recommendations

1. The revenue collection system has been reviewed and the collection system is being adjusted so that the DDC's collect taxes only at source rather than through barriers at export points. A committee of stakeholders at central and local level will be formed to monitor and handle grievances of tax payers.
2. The land revenue rate is very low and flexibility is needed to decide this according to land productivity/income. (The regressive land registration fee to be converted in a progressive way to share revenue.)
3. Criteria and formula-based grant transfer system should replace the present ad hoc system.
4. A transparent accounting management system has to be developed, installed and monitored so that equitable allocations can be made and revenue sharing policies reviewed.
5. The number of local bodies has to be reviewed to reduce administrative costs.
6. A complete database of NGOs/CBOs has to be prepared and contract-out systems developed.
7. Local bodies must encourage private sector investment. The share of income through capital investment has to be assured and user charges should be equitable keeping in view socio-economic disparities.
8. The capacity of local bodies to identify and appraise investment projects has to be strengthened.
9. A financial facility such as a bank or fund has to be established to finance investment projects of local bodies.

10. A strong audit system has to be installed.
11. Transfer has to be linked with performance and measures/indicators have to be identified for this.
12. Management information and financial management information systems have to be combined with the decentralized monitoring information system and installed at local level. Networking with the central level has to be established.
13. Other revenue sharing areas have to be explored. Revenue potential studies must be carried out through the LBFC or by the local bodies themselves.

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9 Development of cooperatives in Nepal

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Historical perspective

Nepal is primarily an agriculture-based country with a long cooperative tradition. The cooperative concept in its modern and organized form is half a century old with the Department of Cooperatives (DOC) established in 1954 under the Ministry of Agriculture (MOA) to promote and assist in the development of cooperatives. This led to the establishment of cooperative credit societies with unlimited liability in Chitwan District as part of a flood relief and resettlement programme. The development of cooperatives in Nepal is closely related to government initiatives to use cooperatives as part of its development programme.

Development of cooperatives

The evolution of cooperatives in Nepal is best traced through the various national development plans.

First Plan (1956/57-1960/61)

During this period, cooperatives were established as part of the rural development programmes with a government target of 4 500 agricultural multipurpose cooperatives during the Plan.

Second Plan (1962/63-1964/1965)

The cooperative programme was integrated with the land reform programme. A Cooperative Bank was established to provide credit to small scale cooperatives. The number of cooperative societies rose up to 542 during the plan period.

Third Plan (1965/66-1969/1970)

A total of 1 489 cooperatives were operating in 56 of country's 75 districts. Many of these were defunct by the end of the plan period.

Fourth Plan (1970/71-1974/75)

The cooperative reorganization programme begun in 1969 stressed importance of commercial viability, but still ignored social viability. A large number of cooperatives were either liquidated or merged with others leaving only 250 cooperatives in total.

Fifth Plan (1975/76-1979/80)

A massive Cooperative Expansion Programme was launched which aimed at operating 1 163 cooperatives in 1 827 then village *panchayats* (councils) of 30 districts, with 808 000 members and providing services to 4.4 million people in the country.

Sixth Plan (1980/81-1984/85)

More emphasis was given to the viability of cooperatives and the needs of small farmers.

Seventh Plan (1985/86-1989/90)

Cooperatives acquired a greater role in the services sector. By the end of the plan period there were 830 agricultural cooperatives and 54 non-agricultural cooperatives.

Eighth Plan (1992-1997)

The 1992 Cooperatives Societies Act recognized the need for democracy and autonomy for cooperatives. More than 3 700 primary cooperatives, 77 district cooperative unions, three central level associations and one national cooperative federation were formed.

Ninth Plan (1997-2002)

Cooperative development was emphasized for national economic growth. By the end of 2001/02, one national cooperative federation, three central level associations, 121 district cooperative unions, and 7 064 primary cooperatives were registered.

Tenth Plan (2002-2007)

Promotion of cooperative participation in agri-marketing and infrastructure development. Some 60 000 cooperative members to be trained in cooperative management, accounting and business promotion.

More than half of Nepal's 7 445 cooperatives are located in the Central Development Region, of which more than a quarter are in Kathmandu, Lalitpur and Bhaktapur districts.

WEAN Cooperative

The Women Entrepreneurs Association of Nepal (WEAN) was formed in 1987 as an autonomous association. It has provided opportunities for Nepalese women entrepreneurs to gain self-confidence as well as new entrepreneurial knowledge and skills. In 1992, WEAN established a women's marketing cooperative.

The cooperative started in 1991 by providing a marketing outlet to agro-based and handicraft products of its members. It was supported during 1993/96 by the UNDP/UNIDO Women's Production and Marketing Cooperation Project.

Main services provided by WEAN Cooperative:

- Collection and marketing of agro-based and handicraft products of members and women from rural areas.
- Provision of quality raw materials, packing materials.
- Resource mapping for raw materials availability to assess production potential of agro-based products.
- Information and counseling on product, markets and quality.
- Provision of cooperative-patent.
- Forum for exhibiting products in and outside the country.
- Training.

The Cooperative currently deals with more than 200 items and is now marketing in Japan, the Middle East, Hong Kong and New Zealand among other countries. The cooperative provides direct or indirect employment to about 7 500 people.