

NRI Report No: 2716

Rural Non-farm Economy and Livelihood Enhancement
DFID-World Bank Collaborative Research Project

Panchayat Raj Institutions and Local Development in Madhya Pradesh and Orissa, India: Synthesis of Findings and Recommendations

Nandini Dasgupta, Alan Marter

With Contributions from

Action Aid-Orissa, CYSD-Orissa, DEBATE-MP

and Samarthan- MP

The views expressed in this document are solely those of the authors and not necessarily those of DFID or the World Bank

March 2003



World Bank

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1 Background

1.1 DFID- World Bank Policy Research Programme

This study is part of a wider initiative on rural development taken by DFID and the World Bank in 1997. The policy research on Rural Non-farm Economy was started in 2000. The purpose of this initiative is to inform and influence policy making process for the RNFE within a poverty-focused rural strategy. Following discussions between World Bank, DFID and national governments countries selected were Uganda; India-the states of Madhya Pradesh and Orissa; Romania, Georgia and Armenia. This report is exclusively focused on the Indian case studies.

This research specifically seeks to inform policy on two inter-related topics:

- ◆ Factors which influence poor people's ability to engage in different types of RNFE activities; and
- ◆ The effect of local governance on the development of the RNFE.

This report discusses the role and effectiveness of institutions local governance in Madhya Pradesh and Orissa.

1.2 RNFE and Local Governance

The emphasis on issues of Local Governance emanates from the realisation that while decentralisation (administrative, fiscal and/or political) is a strategy to increase democratic development, *per se* it could merely redistribute powers and functions from the central to the local level. By itself such redistribution may not be able to ensure that the institutions of local governance are able to advocate or facilitate or promote growth that is equitable and sustainable. The literature on the role and importance of RNFE on poverty alleviation has increased in recent years. At the same time the role, powers and functions of the institutions of Local Governance have also been documented in detail. However, relatively little is known of the role of the institutions of local governance and its impact on non-farm activities; and of people's awareness and perceptions of the powers given to them and their representatives; and of the developmental roles and functions of these institutions. This knowledge could prove effective in influencing policy on poverty reduction.

To address this gap in literature the present study has been designed to explore the following two hypotheses:

- ◆ RNFE is susceptible to positive and negative influences depending on the characteristics of local governance; and
- ◆ Decentralisation may have beneficial effects on the RNFE by enabling forms of supportive local governance.

1.3 Definitions

The term **Local Governance** in the study refers to both formal and informal institutions of governance. The former includes, Panchayat Raj Institutions (PRIs), and the latter includes the civil society organisations, the private sector, and lending/donor agencies. This study adopts the definition of civil

society developed by Tandon and Mohanty (2000)¹ and used by DFID-MP. Civil society is “defined as the space independent of the state and the market. It is conceptualised as the sum total of all individual and collective action intended for public good” (DFID-MP, 2002)².

RNFE includes activities that are outside primary agriculture, forestry, animal husbandry and fisheries, whether carried out on one’s own farm or as labour on other’s farm. The main criterion for identifying non-farm activity is: does the activity add-value to the product, irrespective of the fact that the product has been generated as on-farm activity. For example, if cleaning of grains before they are sold fetches a different price than the grain that has not been cleaned, the activity ‘cleaning of grains’ will be a non-farm activity.

1.4 Methodology³

Research methodology: A two-tiered research methodology was developed to test the above hypotheses. Phase I undertook a top-down approach to analyse the structure of formal and informal institutions of local governance with the aim to assess their functions and effectiveness. In Phase II field research at household level examined the impact of decentralised government on local activities; the relationship between donor funded projects and local democratic institutions; the links between line departments and PRIs; people’s awareness of the powers and functions of the formal institutions; and people’s perception of who is the more effective agent of economic development. This phase covered 800 households in each state. It is pertinent to note that the household survey was designed to address issues of both components of the study, i.e., Access to RNFE and Local Governance and RNFE.

Choice of study area: The selection of the districts was purposive in nature following wide ranging consultations with government officials in MP, Orissa, Delhi and NGOs in both states. In MP the districts selected were Narsimhapur (agriculturally prosperous; high road connectivity; predominantly non-tribal) and Betul (mix of agriculture and forestry; lower density of roads; officially designated as tribal area; selected for DFID’s Livelihood Mission). In Orissa the districts selected were Nayagarh (good agricultural potential; high road connectivity; predominantly non-tribal) and Balangir (mix of agriculture and forestry; marginally located; with a large tribal population; and drought-prone).

The criteria used to select blocks and Panchayats were also influenced by the needs of the two components of the study. These are (i) level of RNFE activity; and (ii) level of access to roads. The reason for using the first criteria is to examine if there is any difference in level of activity of local governance institutions and level of RNFE. Research has shown that road infrastructure and access to roads are important determinants of RNFE. Choosing blocks and Panchayats using the second criteria would allow this project to examine this relationship in the study area. These criteria were applied at each level. This meant that the study would cover two blocks and four Panchayats in each block. These are given in Annex 1, Table A1.

¹ Tandon. R. & Mohanty (2000) Civil Society and Governance: A Research Study in India. Cited in DFID-MP.

² DFID-MP (January 2000) Civil Society Organisations of Madhya Pradesh. Bhopal.

³ For a detailed discussion of study methodology see NRI Report No 2688. Annex 1 at the end of this report gives a brief description of the methodology and the study area.

1.5 Plan of the Report

Section 2 discusses the implementation of the 73rd Amendment in the two states of MP and Orissa. Section 3 reports the findings of this study and the policy implications. There are three approaches to mitigation and improvements: policies (national, state and local), projects and research. Section 4 discusses the recommendations under these three approaches.

1.6 Collaborators

This study has been implemented by NRI and four other collaborators. In MP they are Debate and Samarthan; and in Orissa they are Action Aid and CYSD.

2 Implementation of the 73rd Amendment in Madhya Pradesh and Orissa: Has it made any Real Difference?

2.1 National Legislation

In 1993 the National Parliament in India passed the 73rd and the 74th amendments related to establishment of local governments in rural and urban areas, respectively. These amendments contained some provisions that were mandatory and others of a discretionary nature. Mandatory provisions were to be incorporated into the state act as such. For example, the mandatory clauses provided that there shall be a three-tier structure of Panchayat Raj institutions (PRIs) for states with population above 20 lakhs (2,000,000).

The discretionary provisions provided choices to the state governments, e.g. the extent of powers that could be given to the different levels of the Panchayat. Each state government has adopted the discretionary provisions to varying degrees in their state acts. The different use of these provisions has implications for how the institutions function; and the combined implementation of mandatory and discretionary provisions will determine the overall effectiveness of these institutions of local governance. Section 2 therefore addresses two principal questions. These are:

1. Has the varying use of the discretionary powers by the states created structures which make a significant difference in the way local community participates in local governance in the two states?
2. Do the powers and functions devolved under mandatory and discretionary provisions enable the PRIs to promote local development, particularly non-farm activities?

2.2 Use of Discretionary Powers by the States

Both states have used the discretionary powers to devolve more power, functions and responsibilities to the village community than is required by national legislation. They have also used the option to distribute power to the three levels in different magnitude. These are discussed in sections 2.2.1 and 2.2.2. Except for these differences, the systems of PRIs in the two states are very similar. (For detailed analyses of PRIs in MP and Orissa see NRI Reports 2688 and 2709 respectively).

2.2.1 Power to the people

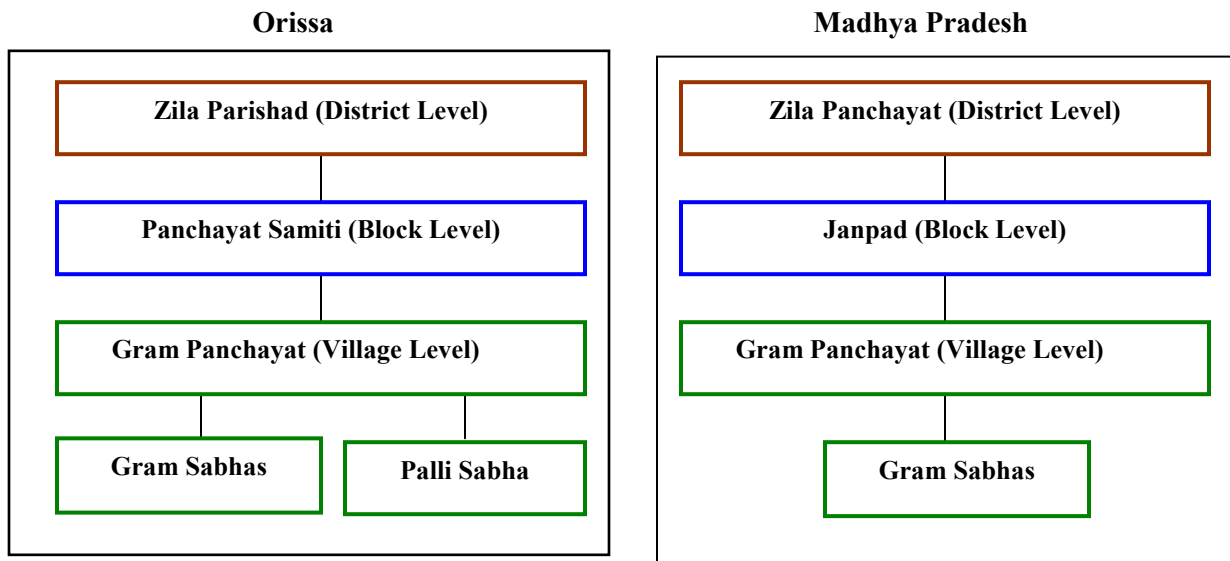
It is mandatory on all state governments to create a three-tiered structure of local government institutions. These tiers relate to the district, block and village levels. Both MP and Orissa have taken it further and created an additional layer at the village level. However, there are differences in the powers and functions allocated to them in the two states.

In Madhya Pradesh the State Acts of 1993, 1994 and 1999 put in place much of the structure that now exists. By 2000 it was realised that at the village level the *Sarpanch* (Head of Panchayat) was all powerful and used all the power given to the village community. An amendment in 2001⁴ recognised

⁴ In MP, the amendment changed the name of the Madhya Pradesh Panchayat Raj Act 1993 to Madhya Pradesh Panchayat Raj and Gram Swaraj Act 1993.

the Gram Sabha⁵ as a ‘body corporate’. It can monitor and question the functioning of the Gram Panchayat. The Act also devolved some of the powers and functions from Gram Panchayat to Gram Sabha. The Gram Sabha is expected to make annual plans for the village, to be passed on to the higher levels of PRIs for integration into the District Plan. However, it can also implement its own decisions (without depending on the Gram Panchayats) for projects valued at less than Rs 300,000. This devolution has been accompanied by enabling orders from each line department that has effectively transferred administrative function to the Gram Sabha of different activities carried out by the departments. The Gram Sabha has also been empowered to open bank accounts so that the state can transfer resources to each of these units under different schemes and programmes. To enable the Gram Sabha to carry out its functions eight standing committees have to be constituted in each village. This is in addition to the three standing committees under the Gram Panchayat.

Fig 2.1 Showing the Panchayat Institutions⁶



NB: The Gram Sabha & Palli Sabha are under the jurisdiction of Gram Panchayat.

NB: The Gram Sabha has the power to monitor the functioning of the Gram Panchayat

In Orissa, legislations in 1991, 1993 and 1994 created the current structure of institutions. Two additional fora are Gram Sabha and the Palli Sabha. For each Gram Panchayat, the Act provides for Gram Sabha(s) – a body comprising of all qualified voters of that village (Gram). The Palli Sabha is a body consisting of all the qualified voters of their respective revenue villages⁷ or hamlets situated within the Gram. Both Gram Sabha and Palli Sabha are general bodies that work within the jurisdiction of a Gram Panchayat.

⁵ Gram Sabha is defined with respect to a ‘village’. All persons enrolled in the electoral register of the village define the membership of the Gram Sabha in that village.

⁶ It is pertinent to note that a Gram Panchayat generally has under its jurisdiction two medium sized villages or three small villages, depending on village size. This means that there can be more than one Gram Sabha under each Gram Panchayat.

⁷ Revenue Village means any area recorded as a village in the revenue records of the district in which it is located.

The Gram Sabha is the deliberative wing of the Gram *Sasan* (Village Administration). It is expected to prepare the annual budget for the village on the basis of the recommendations of different Palli Sabhas. In the June meeting, the Gram Sabha is to assess the report of the programmes and works undertaken by the GP and the annual audit report submitted by the *Sarpanch*. In Orissa there are five functional committees at the village level. However, they are under the Gram Panchayat and not the Gram Sabha.

Comparing Orissa and MP: It is clear that MP government has given more power to the Panchayats than Orissa. Furthermore, Manor (2002)⁸ observed that the Orissa Panchayats are weak and dominated by bureaucracy. In MP there is limited co-operation between functionaries and elected representative, but the degree of domination is much less. He has classified states by the strength of the Panchayats. These categories are:

1. **States with Strong Panchayat:** Gujarat, Karnataka, Kerala, **Madhya Pradesh** Maharashtra, Rajasthan, and West Bengal.
2. **Middling States:** Assam, Delhi, Haryana; Jammu and Kashmir, Uttaranchal. Chattisgarh⁹ and Himachal Pradesh are expected to move to Category 1.
3. **States with Weak Panchayats:** Andhra Pradesh, Bihar, Jharkhand, **Orissa**, Tamil Nadu, and Uttar Pradesh.

It has been noted by Manor (*ibid.*) that the Gram Panchayats in Orissa covers a large number of revenue villages and hamlets. This means that each Panchayat has to cover a much larger population. In India, MP has the smallest number of families per Gram Panchayat allowing scope for greater contact between elected local representatives and their communities.

Theoretically, the greater powers devolved to the people in MP, the marginally higher levels of co-operation between line departments, and the small population coverage by each Panchayat would imply that there is more peoples' participation and empowerment in MP than in Orissa.

Our analysis at the village level shows that in MP, where the Gram Swaraj Act has given powers and functions to the Gram Sabha, there is considerable confusion among the villagers as to the designated functions of the various committees. Very often individuals are members of a committee without being aware of its functions, role, responsibilities and affiliation (PRI committee or project-based committee). Multiplicity of legislations bringing in change has added to the misunderstandings. Furthermore, meetings are called at short notice making it difficult for individuals to attend. It appears that there is little feed-back from the *Sarpanch* as to the outcomes of the meetings. As a result the participation rate of the community in these committees and in the Gram Sabha has declined and is almost negligible leaving the *Sarpanch* and the Secretary to take most of the decisions. In Orissa, the village level

⁸ Manor. J. (2002) Report to SIDA (New Delhi) on its Policy to Support Democratic Decentralisation in India. SIDA Workshop, Delhi, 26th November.

⁹ It is surprising that MP and Chattisgarh appear in different categories, as they have identical legislations.

committees have yet to be set up so the decision-making is left to the *Sarpanch* and the *Naib (Deputy)-Sarpanch*.

This loss of confidence in the local representatives in MP and delay in setting up the village level institutions in Orissa are unfortunate. Given that in both states the participation rate in the last local elections was between 85%-93% (Household Survey data), most of the community feel let down by the current situation. According to our survey nearly 40% of households in MP and about a third in Orissa feel that elected representatives have too much vested interest to work for the people.

Conclusions: Clearly a considerable amount of power has been theoretically devolved, to the village communities in both states. It appears that the Gram Sabha in MP has more power and is stronger than its counterpart in Orissa. However, the research findings lead one to conclude that in MP people at the grassroots level are over-burdened not only with the number of committees but also with the imposition of an increasing number of powers, functions and responsibilities. This is largely because they are not fully cognisant of these new powers and function. However, in reality, in both states the decision-making at the village level is still firmly with the Sarpanch. It is pertinent to note that the Sarpanch in most instances represents the interests of the traditional power groups (landowners and upper castes). Rebuilding this loss of confidence of the people in the local institutions and its elected representatives will be a difficult task.

Implications for policy and projects: While the question of reducing the power devolved is not politically realistic, there is undoubtedly a need to rationalise the structure at the village level; a simpler system that will facilitate wider participation. Without active participation at this level, the power relations will remain unchanged. Without such change issues of accountability between local politicians and their constituency will not be addressed.

Moreover, before the village-level institutions can be effective partners in development projects, they have to be representative of wider community. Currently they are not. Increasing awareness among the community of their rights and responsibilities created by the Panchayat Raj is fundamental.

2.2.2 Distribution of Power among District-, Block- and Village-Level Institutions

If we take two of the most important functions that the PRIs perform, it is easy to see at which level, the real power rests. The two functions that preoccupy institutions at all levels are: (i) preparation of annual plans and budget; and (ii) re-allocating funds made available by the central and state governments to the lower levels of the hierarchy. These functions are inter-related and are discussed together.

In both states, the preparation of annual plans by the village Panchayat and the Gram Sabha (if it is functional) involves choosing projects for the funds allocated to that village under the different centrally sponsored schemes. The monies for these schemes are allocated to the Gram Panchayats by the Zila

Panchayat, whose Chief Executive Officer is appointed by the government, and is generally the District Collector¹⁰. The Gram Panchayat has little power or scope to deviate from the prescriptive guidelines set for selection of projects. The District Rural Development Authority (DRDA) decides on the kind of activities to be promoted under the schemes implemented in the district. The Gram Panchayats are required only to select the beneficiaries (Households Below Poverty Line) for the schemes.

In MP, the Gram Panchayats can take independent decisions on certain projects. It can sanction construction work worth less than Rs 300,000. They have control over funds generated from their own source, which includes levying taxes. However, very few Gram Panchayats have used this fiscal right. Hence, they have little financial autonomy (This is discussed later).

Once the plans are prepared they are passed on to the Block level bodies, the Panchayat Samiti in Orissa and Janpad in MP. Panchayat Samiti and the Janpad have no power to alter the plans and budgets decided at the village level. They just consolidate the plans sent by Gram Panchayats and forward them to the District level institutions. The decisions at the district level are taken by the Zila Parishad. The budgets submitted by the Gram Panchayats can be changed at this level. The Zila Panchayat can take the decision to fund only a part of the plans submitted by the Gram Panchayats. However, the ultimate decisions about funds, projects and schemes are with the District Planning Committee (DPC) as it can override the recommendations of the Zila Panchayat. Generally, the Zila Parishad and the DPC amend the plans sent by the Gram Panchayats.

Furthermore, at the district level the state government has been given the discretion to define the composition of the DPC and to provide additional powers to it. In both Orissa and Madhya Pradesh, the DPC is headed by a Minister of State (generally a regional leader) nominated by the state government, with the District Collector as the member Secretary. The DPC has been endowed with considerable financial and administrative powers over departments and its functionaries. It has parallel control over line management departments and with the District Collector being the secretary; the voice of the DPC is heard above those of the PRIs. Thus, with the Minister as its Chairperson and the District Collector as its Secretary, the DPC has greater 'administrative clout' than the Zila Panchayat.

When it comes to disbursements of funds the monies flow directly from the Zila Parishad to the Gram Panchayats and/or Gram Sabha. The Janpad and the Panchayat Samiti are simply the implementing arm for projects implemented by the line departments. The Block Development Officer (BDO) in Orissa appears to have a little more leverages than his counterpart in MP. He is in charge of the funds generated by the Panchayat Samiti. However, our study shows that the dominant players at the block level are the functionaries of the line departments. They use the Block Level PRIs for rubber stamping, and just inform the BDOs of the schemes that the line departments are implementing in the Block.

Conclusions: The new hierarchy of institutions created by legislation had tended to re-enforce the powers at district level and (in theory at least) at village level. As such the

¹⁰ It is important to note that Chief Executive Officer of the ZP and the Collector are two different posts. It must also be noted that the District Collector is a government appointee and not an elected representative.

block level institutions have been marginalised to a degree. The real authority is being vested at District level through powers and responsibilities granted to bodies such as the DPC and DRDA. The new legislation has reinforced the power relations they were expected to change. Additionally, at the District level it is the government functionaries who have more power than the elected representatives with the real centre of power still with the District Collector.

The control exercised by the Block Level officials over the Panchayats and Gram Sabhas has buttressed corruption and diluted accountability among functionaries. Though the PRIs have the power to monitor activities of Line Departments, this does not happen in reality.

Implications for project implementation: This power structure embodies very top-down relations. This means that there is little scope for lower level institutions to take initiatives to make any substantial changes to way the local, rural economy is managed, even if they had the human resources for it, or wanted to. This has also led to the pessimism that villagers at their own level cannot change and improve performance.

2.3 PRIs and Promotion of Local Development

The term local development generally implies expansion of economic activities, increase in productivity, improved infrastructure, more diverse livelihood opportunities and options and an overall improvement in the social and economic well-being of the local population. There are four main reasons why the Panchayat institutions are limited in their ability to initiate any substantial local development.

1. Despite the wide ranging powers given to the District level authorities, they work within the confines of the centrally sponsored schemes and projects. The developmental focus of these schemes is narrow and sub-sectoral, with lack of attention to issues of markets and marketing of produce. Initiatives under these schemes are limited in their perspective as they envisage only small increases in income to pull households above the Poverty Line. Special schemes for supporting small-scale village and household industries, still concentrate on traditional items for which the market has declined following changes in consumer preferences. Most Centrally Sponsored Schemes¹¹ (CSS) are conceived for small scale improvements, with little scope for scaling up. Overall the emphasis of these schemes is on employment generation, income creation and alleviation of hardships. While all these objectives are important, such schemes do not provide an impetus to local growth.

However, it must be noted that neither the DRDA nor the members of the DPC show any initiative to differentiate needs and capacities below the district level. For example, the group of activities to be promoted under a particular scheme are applied to the whole district, though some areas may be less suited for them. Moreover, while the Director's of the different DRDA's admit the need to identify new markets and new products they have made half-hearted attempts to identify emergent

¹¹ Most rural development in India is funded through central government schemes that provide 75% of the funding. States provide the remaining 25%.

sectors to promote. They have critically recognized a lack of expertise at the district level to undertake such an initiative. In the four districts studied none had initiated any significant change in activity in the last five years. Vyasulu (2003: pp 37)¹² refers to this as the “gap between knowledge and market opportunity”. Not surprisingly, our discussions at all levels indicate that the only person who can take an initiative at the district level is the District Collector.

2. Another factor limiting initiative is the tied nature of funds disbursed to these institutions. They generally prescribe activities and target groups for the scheme as a whole. This has two implications. The activities stated under a certain scheme are not always appropriate for all parts of the district. This results in unsuitable activities being promoted or an under-spend of the funds, and hence loss of funds. Secondly, tied funds are inflexible, giving little scope for tailoring to local needs and conditions.
3. Theoretically, the Block level institutions and particularly the BDO are the main agents for delivery of services in the rural area. However, as our analysis shows it is also the weakest strata in the hierarchy. The BDO, a government appointee, is a low level functionary. Our field interviews show that BDOs generally have low levels of human resources. There is considerable literature noting the lack of co-ordination in the activities of different line departments, and the consequent low impact of schemes and slow pace of change in rural areas. Technically, the BDO is placed to help improve co-ordination of schemes and activities of line departments at the Block level. But as he is low ranked functionary he has no prior information from the line departments of their schedule of activities. Furthermore, though he has the authority to ask for it, the BDO feels unable/hesitant to do so.
4. The system of reservation (though desirable from equity point of view) can have adverse affects on promoting long term development. The seats held by women and members of Other Backward Castes (OBC) are allocated by rotation among different constituencies. In practice this implies that a women or a scheduled caste/tribal elected to a Panchayat will normally have a term of five years, with no prospect for re-election. This does not encourage a long-term perspective to development. Elected members tend to work for their constituencies in the expectation that they would be returned to power in the next election. In reality the short-term perspective and self-interest dominate, with little concern for the community at large.

Conclusions: The PRIs and government functionaries have considerable power, particularly at the District level. However, they are limited in their scope to initiate any major economic change in the district by the prescriptive nature of the plans within which they have to operate. This constraint is further exacerbated by the lack of initiative by senior district level officials. Ironically they are fully aware of these constraints, but appear to take no action to address the problems. The intra-district disparity in needs and capacity could be partially addressed with some resourcefulness. The lack of expertise to identify

¹² Vyasulu. V. (2003) Panchayats, Democracy and Development. Rawat Publications, New Delhi.

wider emergent markets and the ability to link these demands to local potential is critically missing in PRIs, the DRDAs and Line Departments at district level and below.

Furthermore, legislation has created the BDO, an important co-ordinating position, without giving it enough powers to perform the function.

Implications for project implementation: The District Collector is the nodal point for development in the district. He/she also holds the executive powers on behalf of the institutions of line departments. The CEO of the Panchayat is also a civil servant, but junior to the District Collector in rank. Though the District Collector is not an elected representative, his/her involvement in any project will be crucial.

If more substantial development is to be initiated through the existing centrally and state sponsored schemes, they have to be made more flexible through greater powers being given to the institutions to use funds more appropriately. Additionally, share of tied funds to un-tied funds also needs to be addressed at the national level.

3 Findings: Social Relationships, Institutions and RNFE

3.1 Introduction

This section reports on how the establishment of local governance institutions has affected the established power relations (Section 3.2); and whether this has affected the opportunities for pursuing non-farm activities (Sections 3.3). Section 3.4 reports on the functioning of PRIs and their impact on non-farm activities.

3.2 Social Relations and Empowerment

Establishment of local democratic system is expected to alter inequitable and unequal traditional social relations by giving more power to the socially and economically disadvantaged communities. This study examined the kind of empowerment that may have taken place as this has implications for selecting actors/partners for policy intervention, project design and promotion of non-farm activities.

Empowerment of individuals and community can take place through (i) improved representation in political systems; and (ii) higher accountability between leaders and their constituency and greater awareness of one's rights. These issues are interrelated and together determine any scope for empowerment. These are discussed below.

In all four districts, our research shows that nearly 85% (in Betul it was 93%) of the population voted in the local elections. National legislation requires one-third representation of women, the ST, SC and OBCs at all levels of the Panchayat. An analysis of the membership profile of the Panchayats shows that at all three levels women, the ST, SC and OBCs are represented as legally required. The impact of this has been played out differently in the two states.

(i) In MP, Narsimhapur district is grounded in agriculture with all caste groups being well represented. The common response of the traditional power groups to the emergence of the Panchayat institutions is that of co-option. This co-option is either through becoming members of the new institutions themselves or by backing a certain candidate in constituencies which are reserved for the socially disadvantaged groups. In the first instance there is no dilemma in accountability as the elected member represents the interests of his/her community. In the case of the latter, where the leader has been co-opted by providing the initial support to run the election campaign, it means diminished accountability towards the constituency, which is socially and economically deprived. Consequently, the source of power in this district still lies in the traditional mix of upper caste, higher economic class and/or land holding (potential to provide employment to others).

Betul district of MP is less heterogeneous and dominated by tribal communities. The rural economy is based on forest-based activities and long-term, long distance migration, giving village leaders limited control over households. Literacy and political activism have allowed the elected representative from Scheduled Tribes to achieve leadership of their community and some degree of empowerment. The traditional source of power, that had been created by social structures, function in parallel to the new sources of power created by electoral politics. Democratic structure appears to take root more easily

where the previous power relations were not tied to economic controls. However, it was noted that at the district and block levels these representatives find it hard to work independently as the traditional power groups have strategic influence and higher capacity to deliver.

In Balangir and Nayagarh districts, Orissa, the elected representatives from scheduled castes and tribes are almost excluded from participation and discussions in Gram Sabha and Palli Sabha. It was observed that the traditional power groups (upper caste and landowners) use the social barriers of untouchability and caste-distance to ostracise leaders of minority groups at Panchayat meetings. For example, forcing these leaders to sit on the floor at the margins of the gathering or refusing to let them join the other elected members at the table. To avoid social humiliation these leaders stop participating in Panchayat activities. This effectively leaves the decision-making to the upper castes and landowners.

In all four districts most women representatives were a front for a male (husband/father) member of the household and refused to give interviews unless the male member was present.

(ii) Knowledge of local institutions and the rights they bestow are an important source of empowerment. Our findings show that in Betul less than 3% of the people are aware of role and functions of the Gram Sabha and Gram Panchayat (Table 3.1). This awareness is positively correlated to landownership (0.34); and household income (0.21); and less strongly related to household's level of education (0.19). In Narsimhapur, the majority are somewhat aware (53%) and 19% are fully aware of the role and functions of the Gram Sabha and Gram Panchayat. This is largely because of the decentralised nature of power distribution amongst the upper castes that are in majority in this district. In female headed household in MP, the levels of awareness of Gram Sabha and of Panchayats are more strongly correlated to household income. They are 0.47 and 0.43, respectively. It is interesting to note that overall, 63% of all upper caste members in the two districts of MP are somewhat aware of the functions and responsibilities of the Gram Sabha and the Gram Panchayat. The argument put forward by the rural better-off, is that 'there are no programmes for us, so we to have know the system to get a share of funds coming to the village'.

Table 3.1 Peoples' Awareness of the Gram Sabha as an Institution. (% of Households)

Levels of Awareness of	Madhya Pradesh		Orissa	
	Narsimhapur	Betul	Balangir	Nayagarh
Overall role of Gram Sabha				
Not aware	24.7	59.7	21.3	24.0
Somewhat aware	53.2	37.6	46.0	50.6
Fully aware	18.7	02.7	32.7	25.4
It has been created by legislation				
Not aware	43.0	86.0	54.5	75.8
Somewhat aware	26.3	11.3	30.8	18.3
Fully aware	21.1	02.7	14.7	5.9
How it functions?				
Not aware	34.4	87.2	39.0	51.2
Somewhat aware	45.6	09.8	47.7	36.8

Levels of Awareness of	Madhya Pradesh		Orissa	
	Narsimhapur	Betul	Balangir	Nayagarh
Fully aware	20.00	03.0	13.3	12.0
Functions of the Gram Sabha				
Not aware	45.6	86.6	33.5	57.3
Somewhat aware	38.4	11.6	50.8	31.7
Fully aware	15.7	01.8	15.7	11.0
Functions of Committees				
Not aware	66.0	91.1	50.2	76.0
Somewhat aware	24.5	07.3	38.8	19.3
Fully aware	10.0	01.6	11.0	4.7

In Orissa, the district of Balangir was selected as it represented a drought-prone, marginal district with high levels of poverty. However, when it comes to levels of awareness of Gram Sabha and how it functions, Balangir is ahead of Nayagarh. Nearly a third (33%) of the population in Balangir is fully aware of the overall role of the Gram Sabha as against 25% in Nayagarh. About 15% of the people in Balangir are aware of its functions, and of the functions of the committees. In Nayagarh it is only 6.5%. This could perhaps be explained by high level of donor and NGO activity in the district. These activities relate to awareness raising, training and skills development, information dissemination on availability of credit; rural livelihoods development and improved watershed management. This large array of programmes would tend to cover a substantial part of the population.

Conclusion: The provisions for reservation and positive discrimination did not *ipso facto* lead to empowerment. The politics of co-options, and the use of social barriers to keep out certain elected representatives mean poor political representation of, and diminished accountability to, socially and economically disadvantaged group. This together with peoples' low levels of awareness of the institutions means that there has been very little or no empowerment. Although some changes are taking place, the overall path of development is skewed to serve the interest of the traditionally dominant group.

In the predominantly tribal areas some empowerment of local leadership has taken place but awareness levels still remain unacceptably low. In the female headed-households, the level of income is an important factor in conditioning awareness.

Implications for policy and projects: It is important at policy and project levels to identify drivers that could be used to empower communities. However, these drivers would differ with the district concerned. In Betul, where independent leadership is emerging, these leaders could be involved in designing local development programmes. In Narsimhapur, the local leadership would be difficult to involve unless they also stand to gain. They are part of rural elite who are the main economic actors. They are an important source of wage employment. Any programme of intervention must take care not to upset these links, as this will cause even greater distress to the target group.

In Orissa, caste and traditional relations seem to marginalise elected members from the democratic processes. This requires sustained programme of awareness-raising, with the NGOs best placed to execute such programmes. However, this requires government and donor commitments to fund such projects.

3.3 Social Relations and RNFE:

In predominantly non-tribal areas land ownership is dominated by the upper castes. Members of Scheduled Tribe and Scheduled Caste also hold some land. Even within tribal areas there are dominant and subordinate groups. In Betul district, Gonds, the dominant tribal group, own most of the land. The marginal groups like the Korkus own only a small share of the land. Agriculture is not strictly caste bound. If a farmer from an OBC or SC is successful, he/she may acquire more land and gain economic status. However, this will not alter the social standing and rest of the community will still maintain the caste-distance.

Outside agriculture, in both the states of MP and Orissa caste determines the economic occupation of individuals and households. However, where long distance and long term migration takes place and/or when individuals move to urban settlements, they often take up activities which they would be unable to pursue in their own village/milieu. Migration loosens the link with traditional employment options in the village of origin whilst caste is less of an issue in urban areas.

Conclusion: With negligible change in social relations in rural areas, economic occupation is dominated by caste.

Implications for development of RNFE: There are two implications. One, it is important that traditional skills are not lost. However, promoting activities depending on traditional, caste-based skills has to be carefully approached to ensure that it does not reinforce undemocratic social structures. Two, in addition to reasons of economies of scale and availability of relatively better infrastructure, and since caste is less of an issue in urban settlements, small towns may be better entry points for promoting rural non-farm activities, than villages. Creating livelihood opportunities outside the rural milieu could help loosen the traditional social relations. However, research on RNFE has shown that often the educated and those with greater resources tend to corner the higher value-adding work created in urban areas.

3.4 Nature of Current PRI Regimes and Impact on RNFE

One of the principal questions addressed by this study is whether the local government institutions have had any beneficial effect on RNFE by enabling forms of supportive governance and the role can they play in any future intervention.

To be able to answer this question the study examined how effectively the Gram Panchayat and the Gram Sabha use their power to manage and generate their own funds; the kind of projects they advocate; the nature of benefits that accrue to the local community from the works undertaken by the

Gram Sabha and Gram Panchayat; and whether PRIs are perceived by the people as a welfare institution or an agent that can help promote economic development. The findings are summarised below.

◆ **Local representatives are poorly informed of their functions and responsibilities**

The ability to function effectively for the people depends partly on how well informed the local representatives are of their own powers and responsibilities; and partly on whose interests they represent (this has been discussed above). Interviews with representatives from all three levels of the PRI show that the majority is unfamiliar with the role they are expected to play. At the district level, the members hardly participate in the process of planning and fund allocation under centrally sponsored schemes. Most seemed unaware of the procedures and regulations. The flip side is that the functionaries are able to bypass them and use them for rubber-stamping. Members complained that bureaucrats do not volunteer any information! This is hardly surprising given that most functionaries are unhappy about being transferred to the Zila Parishad and that they are fully aware of the members' limited capability to perform the designated functions.

A similar situation exists at the Block Level. At the village level, an important power devolved to GP is the right to levy tax on property, business, markets, fairs and for the service provided, like street lighting or public toilets, among others¹³. Only a small number were aware of this fiscal power. Further there is considerable confusion among the elected members as to what functions the three different committees under the GP are expected to perform. Again, the members have made no effort to inform themselves.

Three reasons explain the situation. Those elected members who represent the traditional power groups rely on the old, established links to serve their purpose. They do not see the need to be involved in administration and governance. Secondly, a large number of elected members are not interested in good governance. They see politics as yet another enterprise for economic gains. Thirdly, for those who may be interested, the large number of amendments through which power has been devolved, makes access to such information very complex. Thus, the body of elected members has not really contributed to improving governance.

◆ **Overwhelming dependency on government funding**

A review of money received and Own Source funds shows the overwhelming dependency of Panchayats on government funding. Much of how these funds are used are not audited and is the source of much corruption. These funds are a soft option and discourage any effort to generate local revenue. The Tables 3.2 and 3.3 show the actual funds received by the Panchayats in Narsimhapur district. Similar data for Betul, Nayagarh and Balangir districts were not available.

¹³ For detailed discussion and list of taxes that Panchayats can levy in MP see NRI Report 2688. For a wider discussion see Girglani. J. M. (1994) Financial Resources of Panchayat Raj Institutions in A. Mukherjee (Ed), Decentralisation: *Panchayats in the Nineties*, Vikas Publishers, New Delhi.

Table 3.2 Funds Available to Gram Panchayats in MP, by Block

Receipts	Jhoteswar (1988-99)	Manegaon (2000-01)	Thalwada (2000-01)	Batesara (2000-01)
Owens Source	Nil	Nil	Nil	2,594 (1%)
Funds from SFC, Centrally and State sponsored Schemes, Establish, etc.	497,027	211,844	487,851	229,172
Total	497,027 (100%)	211,844 (100%)	487,851 (100%)	231,766 (100%)

Source: Collected by the Study Team from records made available by GPs

Table 3.3 Fund Available to Janpad Panchayats & Zila Panchayat in Narsimhapur district

Receipts	Janpad Panchayat Chichli Block (2000-01)	Janpad Panchayat Gotegaon Block (1999-00)	Zila Panchayat Narsimhapur District (1999-00)
Owens Source	2,350,356 (2%)	390,034 (3%)	1,615,192 (0.71%)
Funds from SFC, Centrally and State sponsored Schemes, Establish, etc.	11,541, 621 (98%)	14,229,292 (97%)	212,500,040 (99.29%)
Total	13,891,977 (100%)	14,619,326 (100%)	228,652,324 (100%)

Source: Collected by the Study Team from Janpad Panchayat.

The preference for this soft option, i.e., dependence on external funding, is tied to the reluctance to use the fiscal powers given to the PRIs.

◆ **Reluctance to use its fiscal powers**

None of the GP's studied used their fiscal powers to levy new taxes. This trend is also noted by Girglani (1994) and Vyasulu (2003). The argument pushed by the Panchayat members in MP and Orissa is that it is difficult to levy tax on your own constituency, especially when you live in the community. Further, that since the Gram Panchayat provides no service there is no question of levying tax. However, it also appears that many of the services that the Panchayats could support would benefit the poor, but may be irrelevant to the better off, i.e., those exerting power within the new system.

As seen above, considerable amount of funds flow to the Panchayats from the governments. Bhaskara Rao (2000) argues that Panchayats often act as contractors for such projects, thus providing ample scope for enrichment of Panchayat members. Further, that Panchayats tend to reduce their dependency on internal resources such as taxes, revenue from common pool resources, etc., and instead try to mobilise funds from outside, as people are less likely to request a social audit (i.e., accountability of PRI) if they are not asked to pay taxes.

◆ **Limited cognition of how to generate and manage own income**

Interviews with members showed that few had any clear vision for increasing their own sources of income. The lack of interest could be partly explained by the reasons discussed above. Local politicians

still expect the state government to collect tax and then transfer the revenue to the PRI. Some interviewees noted that leasing out common property resources like land and water could raise funds. However, they had no plans on how to use this money to provide services or improve infrastructure. Donations were collected to construct temples and community halls for social activities, but such a strategy is not considered appropriate for enhancing prospects of income generation or improving infrastructure.

◆ **Gram Panchayats: their focus of activity**

The Gram Panchayat and the Gram Sabha focus on developing small-scale infrastructure projects and other facilities in the village under Employment Assurance Scheme, where they have demonstrated their capability to execute such projects. However, these projects are chosen on an ad-hoc basis for employment generation with no systematic planning. These activities are carried out every year. Even with some very basic planning, the annual construction activities could have a cumulative effect and lead to some overall improvement in village infrastructure. Since the aim of the Scheme is employment generation, such a perspective is not envisaged.

Survey data from MP and Orissa show that only 8-9% of households think that Panchayats have had any positive benefit on rural livelihoods. Whilst Panchayat activities include some that directly impact upon livelihoods, e.g., promotion of agricultural and other marketing activities, and improving access to Non-Timber Forest Products, these generally promote wage employment rather than, for example, infrastructure to improve production and marketing more directly. Other areas where some impact is felt cover social and service functions, notably welfare support, nutrition and health care. The latter arises in the context of the range of Panchayat committees that interface with government programmes and schemes. Overall there is little sign of activities assisting in resource management and marketing, and effects on RNFE are negligible.

Panchayat members do not see generating employment and improving livelihood opportunities as part of their role, though considerable power has been given to manage local natural resources. The promotion of economic development is considered a function of the government, more specifically the line departments. Co-operatives, some NGOs and few Self-Help Groups actively are involved in expanding economic activities. These are more active in some districts, for example in Balangir, than in others.

Furthermore, the PRIs are perceived by the people to have only a welfare role. Thus, the lack of involvement in promoting economic activities is reinforced by people's perception of PRIs as welfare institutions. There is no expectation.

◆ **The role of village level committees**

There are a wide range of committees operating at village level including the village development committee; committees for forest protection; joint forest management; watershed community management; schools; parent-teacher; water and sanitation; and culture and youth clubs. Most committees have membership of upto 5% in Orissa and 6% in MP of the community. This membership

provides an honorarium that contributes to household income. The majority of households (70% in Orissa and 80% in MP) is unaffected by committee's operations or perceive no benefit from them.

One key reason for this situation is the minimal resources that are generally available to specific committees. A second factor is the control that may be exerted by specific interest groups or castes over the operation and activities sponsored by committees. Most villagers reported that they felt they had little control over the decision-making or activities of the Gram Sabha committees. Again the conclusion is that committee operations have had little effect upon livelihoods, including those in the non-farm sector.

◆ **District Level and below: limited economic perspective**

The over-riding impression one is left with is the total lack of an integrated economic approach to management of local development at district level and below. The PRIs do not consider it their role nor do they appear to have the capabilities for economic understanding and analysis for promoting wider economic development. The centrally sponsored schemes, the main vehicles for development generally focus on small-scale income generation and employment and on alleviation of deprivation. They are sub-sectoral in approach; concentrate on small-scale improvements in production, crop management and protection. The approach leads to a patchy pattern of change rather than cumulative change. The functionaries, now part of the local government institutions, are preoccupied with targets rather than in affecting real change in production patterns and productivity. The vision and expertise necessary to identify emergent sectors; new markets and products are absent at this level.

Conclusions: The PRIs have been given considerable power to manage local natural resources. Albeit small scale, this could be used to generate some livelihood in the non-farm sector.

With employment generation being the main objective the approach to choice of projects remains ad-hoc and unsystematic. However, they have shown capability to execute small village level infrastructure and welfare projects. This is important, as with a planned approach these could in the long run contribute to the improvement of village level infrastructure, fundamental to the development of non-farm activities.

Panchayats do not see themselves as agents of development. It is identified as the domain of line departments. As such these institutions have not been directly involved in promoting livelihoods or in enabling forms of supportive governance for RNFE..

Clearly, a considerable amount of funds is being made available to the PRIs of which there is little monitoring and no accountability. With Panchayats acting as contractors for government funded projects, it provides lucrative source of income to elected leaders. (Perhaps it is important to add that in the case where the elected leader is the front for other power groups, it is the latter that benefits, for example in Jhoteswar and Manegaon). It is therefore in the interest of these groups to retain this system, rather than using their

fiscal powers to generate funds. This would require greater accountability, but would allow greater flexibility in how these monies were used.

The limited economic perspective among managers of local development points to the need for an attitudinal change and capability development among them.

Policy Implications: PRIs need to be involved to make project benefits more sustainable at the village level. Given the propensity for leakage of funds even at the Panchayat and Gram Sabha, there is need to introduce a system of awards and penalties in the financial arrangement of any collaborative effort.

Furthermore, since PRIs have shown a capability to improve local infrastructure and welfare conditions, future projects could build on this strength. However, it would have to be targeted to project objectives. The choice of infrastructure projects in a more systematic manner, could contribute to building up livelihood opportunities in non-farm sector.

◆ **Summing Up**

This analysis indicates that local government institutions have had very little effect on the rural non-farm livelihood opportunities. They have provided no supportive governance for the development of such activities as they do not consider it their role to promote or enhance livelihood opportunities. It is considered the domain of the line departments. This perception is partly explained by the low levels of awareness of their own roles and responsibilities and partly because it has been the long established role of these departments.

The PRIs have proved better at executing small construction project and delivering welfare services. It is important to build on these strengths. But if local government institutions are to act as agents of local economic development, their capacities for understanding of local economic issues and planning have to be strengthened. However, as long as Panchayat officials can make personal gains from the current system, it will be difficult to introduce change.

To address the issues of financial accountability, the national government needs to rethink the way Panchayats are funded. The current system means little or no accountability at the local level and is reinforcing the pessimism among the community about what these institutions can achieve.

3.5 PRIs and Line Departments

State legislations in MP and Orissa also involved administrative devolution. Administrative decentralisation involved transfer of functions and functionaries from the state sector to Panchayats sector. The aim was to facilitate and strengthen the PRIs. Theoretically, the civil servants are expected to take directions from the elected members. This study shows that the government officials continue to exercise more power over decision-making than elected members by limiting information sharing and by minimising the role of the Zila Parishad to that of a rubber-stamp. Similarly at the Block level, line department officials generally tend to ignore the elected members.

Furthermore, the role of PRIs includes the implementation and monitoring of various development activities at the village level, which fall into the domain of various line departments. This has led to a situation of competition between line departments and PRIs. There are few examples where state governments have attempted to address these conflicts in a systematic manner. One of them is the "People's Campaign for Decentralised Planning", which was launched by the Government of Kerala in 1996, in an attempt to increase people's participation in planning of development initiatives. The aim of this process is to involve line departments and Panchayats in a bottom-up planning process that results in locally relevant and sustainable development. (See Adolph, 2003¹⁴, for details of how the system is implemented). Issac and Heller (2000)¹⁵ note that this model could become an example of integrated planning at local level.

The allegiances and loyalties of these officials remain with their departmental line managers in order to ensure career progression. An increase in accountability requires a critical change in attitude and orientation of the bureaucrats. Manor (1995) has noted that authority to discipline should move to the local authorities. The state Act in MP has tried to address this by shifting some of the control of the reward system to the Zila Parishad, but this is not working because members of the Zila Parishad are not aware that this power has been devolved to them. This underscores the need to change the attitudes and motivation of both bureaucrats and elected members.

Conclusion: These findings are not new to this study. The lack of integration between PRIs and the Line Departments is well documented. Initiatives have also been taken to address the problem. In neither MP nor Orissa, are these institutions working together.

3.6 Other Institutions and RNFE

Other institutions operating in villages were also studied to assess the role they play in the rural economy. These are (i) traditional institutions based on caste/tribe lines; (ii) project or scheme based institutions or committees; (iii) Co-operatives; (iv) Civil Society organisations; and (v) Self Help Groups (SHGs) facilitated by banks, NGOs, government schemes and donor projects.

◆ Traditional institutions, user committees, co-operatives and NGOs

The **traditional institutions** have a high degree of acceptability within the community, but they have closed membership and are influenced by caste dynamics and no longer play a significant economic role. The **project-based institutions** are resource rich, but are bound by their own objectives and are directed by project officials. Committees have been formed under different government schemes and donor-aided projects. They are involved in work like forest protection, improving access of clean water and better sanitation; enabling self-help groups to generate income, usually in the non-farm sector;

¹⁴ Adolph, B. (2003) The Role of Panchayat Raj Institutions in Rural Non-Farm Employment. Discussion Paper No. NRI, UK.

¹⁵ Isaac, T M and Heller, P. (2000) Democracy and Development: Decentralized Planning in Kerala. World wide Democracy Network, <http://www.wwdemocracy.nildram.co.uk/kerala.html>.

management of schools and overall education programme in the village. The **civil society organisations** have the information and the capacity to facilitate, but they are not linked with each other or any other organisation. Each operates in the space that they have created in the village society.

Most of these institutions are formal in nature and have defined objectives. But there is a lack of convergence in the functioning of these institutions. Neither do these institutions share their plans and objectives with other institutions nor do they pool resources to create synergies in the village. In some cases the institutions have been found to duplicate work of PRIs (e.g. project committees). They all work independently, with no formal links with the PRIs. There is a clear lack of complementarity and wastage of resources involved. Our study showed that about 70% of the households were totally unfamiliar with role being played by the different actors/projects.

This implies that the life of these institutions and the benefits that accrue to the members are limited to the lifetime of the project. It is necessary to develop links with the established local government institutions to ensure sustainability. However, there is a fear that a certain amount of independence will be lost if links are made with government institutions. The lack of accountability in the PRI is an additional factor.

◆ **Self Help Groups**

As in the rest of India, an increasing number of development initiatives are working through Self Help Groups. SHGs are most widely recognised, which significantly are also those with specific mandate to improve social and economic development. The higher profile of SHGs and the greater involvement of people in their activities stem from their wider ranging mandate, more resources and more participatory approach in their operation. SHGs have become a popular instrument for development as they are expected to reach the poorest of poor. However, it is generally accepted that “SHGs often do not include the poorest of poor, for reasons such as:

- (a) Social factors (the poorest are often those who are socially marginalised because of caste affiliation and those who are most sceptical of the potential benefits of collective action).
- (b) Economic factors (the poorest often do not have the financial resources to contribute to the savings and pay membership fees; they are often the ones who migrate during the lean season, thus making group membership difficult).
- (c) Intrinsic biases of the implementing organisations (as the poorest of the poor are the most difficult to reach and motivate, implementing agencies tend to leave them out, preferring to focus on the next wealth category)” (Adolph: 2003: 4).

This was supported by our field interviews with women members of SHGs in the Balangir district in Orissa. None were from the poorest household, but contrary to the above there were members who belonged to minority groups.

Members of these groups have taken up non-farm activities. However, they are not always sustainable as they do not receive adequate and/or timely advice from line departments; for example, goat rearing is

a popular option, but there is high mortality rate among the young animals as veterinary advice is not always available.

In addition to technical advice, these groups need access to financial capital and markets for their products and services. Interviews with NABARD, the apex organisation for rural micro-finance, showed that it operates three different models of micro-finance. (See Box 1). While financial help is a pre-requisite for scaling up, it is not enough. Training and capacity building and marketing of produce are necessary for people to use market opportunities.

Box 1: Models of Micro-Finance Used by NABBARD to Fund SHGs

Model – 1: In this model, the bank itself acts as a Self Help Group Promoting Institution (SHPI). It takes initiatives in forming the groups, nurtures them over a period of time and then provides credit to them after satisfying itself about their maturity to absorb credit.

Model – 2: In this model, groups are formed by NGOs (in most of the cases) or by government agencies. The groups are nurtured and trained by these agencies. The bank then provides credit directly to the SHGs, after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model with NGOs playing a major role. This model has also been popular and more acceptable to banks, as some of the difficult functions of social dynamics are externalised. This is the most popular with about 75% of SHGs and 78% of loan disbursed based on this model. The disbursement of funds under the largest rural development scheme, SJGSY, is also based on this model.

Model – 3: Due to various reasons, banks in some areas are not in a position to even finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and micro-finance intermediaries. First, they promote the groups, nurture and train them and then approach banks for bulk loans for lending to the SHGs.

Some training and capacity building is taking place in the districts covered by this study. Realising the need for training and capacity building, many NGOs, government programs and micro-finance institutions have organised training programmes for SHG members and leaders. There are basically two types of training:

- (a) Entrepreneurial training in skills (e.g. basic book-keeping, accounting and business planning) required in setting up a small business, and
- (b) Technical training in skills required for a particular business.

It is not clear what proportion of the SHGs in the study area or what percentage of the 8 million SHG members in India have benefited from such training, or what proportion of trainees has been able to make use of this training by starting a micro-enterprise or income generating activity. Obviously training alone is not enough to ensure that group members take up income generating activities. The

field discussions show that marketing support and knowledge of potential markets; and understanding of issues related to proximity of markets were limited in both states. If SHGs are to successfully pursue non-farm activities, marketing support would have to be provided by district level authorities.

It has to be noted that access, ownership and control of productive resources are still crucial in determining the potential of women to produce marketable products and services. Kay (2002)¹⁶ says that "Micro-credit schemes have not been able to lift women out of abject poverty as they cannot transform social relations and the structural causes of poverty". She stresses the importance of enabling the poor to own and operate enterprises to add value to the primary products they usually produce (e.g. dairy co-operatives). According to Kay, "social mobilisation requires broader conceptualisation and may need the harnessing of the collective strength of self-help groups in a federation." In the districts covered by this study, there were no examples of federation of SHGs.

◆ **Banks**

Nearly 60% of the community felt that banks had made the highest contribution in developing non-farm activities. NABARD has for the last decade been promoting non-farm activities. However, its impact has been limited, as access to formal credit is constrained by the need for collateral; is conditional on a clean record of repayment; and comes with considerable paperwork often beyond the capability of small borrowers. Our survey data show that few households have a clean record of repayment, even if they could come up with collateral, having defaulted at some time or the other. This makes most households ineligible for formal credit.

Conclusion: There are a large number of players at the village level, but only a limited number contribute to promoting non-farm activities. Co-operatives and banks appear to have made highest input to developing non-farm activities. SHG is the main instrument used by development schemes and donor aided projects to create self-employment and/or increase income opportunities, and some non-farm activities, particularly among women. This has been a successful strategy to generate small increases in income, but more co-ordination is required between departments and schemes to make them viable and sustainable. Importantly, the scope for scaling up their economic activities is limited. The issues of markets and marketing of rural products and services need to be addressed. (These issues are discussed in more detail by the Access component of the study)

Policy implications: SHGs have emerged as an important vehicle for promoting non-farm activities. However, for the activities of these groups to be sustainable there is need for better co-ordination of line department; improved information on potential markets; allowing markets to dictate the activities of these groups rather than seeking markets after choice of product/service; and tailoring training programmes to meet skills demand. However, co-operative continue to play a role in supporting non-farm activities. But it seems this institution has been side-lined by the current popularity of SHGs.

¹⁶ Kay, T (2002) Empowering Women through Self Help Micro-credit Programmes. In Bulletin on Asia-Pacific Perspectives 20002-03- Asia –Pacific Economies: Sustaining Growth Amidst Uncertainties. Bangkok UNESCAP.

3.7 Crowded Institutional Space at Village Level: Who Do We Work With?

There is conflicting evidence, theoretically and empirically, on who would be the best partner for local development, the PRIs or the user committees promoted by line departments and external donor projects.

Those who support user committees as partners in development argue that a multiplicity of committees is a means for getting more benefits from the government. Furthermore, villagers see this as an opportunity to ensure the development of their villages through involvement of a large number of government departments. The bureaucracy too favours these committees, as they are able to have a greater say in the implementation of their programmes through these committees. Moreover, these are more amenable to bureaucratic controls than the Panchayats. Committees also create a broader leadership base and provide opportunity for more people to be involved in decision making through membership. The Panchayats have to address several issues making their work onerous.

Moreover, user committees can focus on the group/project's objectives and can deliver better results. It is expected that in the long run members of these committees would seek greater power and opt to stand for election to the Panchayats. Currently, the user committees and other parallel institutions are considered imperative for ensuring greater participation by the local community.

Those who advocate the involvement of the PRIs argue that benefits of projects dependent on user committees are short lived and are not sustainable beyond the life of the project. The livelihoods base of the poor remains only marginally improved. Some social capital may be created through awareness-raising. But evidence shows that most of this social capital is held by the rich, leading to further entrenchment of their powers. Though NGO involvement may reach the benefits to the poorer groups, there is no guarantee that it may be so.

Empirically, our study shows that nearly 89% of household think that neither PRI committees nor user groups are considered functionally effective. In Betul district the opinion is split as to who would be the better partner in development project with 4% support for each group. In Narsimhapur district, 35% think that the Gram Sabha committees are the more appropriate partners as against 23% supporting user groups. In Orissa, the community on balance favoured by a small margin the user groups to PRIs. These results show that there is no obvious trend or support for one or the other. Clearly the opinions of the communities reflect their own experience and hence preclude any generalisation.

Conclusion: Realistically, user groups/committees will remain as important partners in rural development, while the PRIs in both MP and Orissa attempt to understand the powers and functions devolved to them. The low accountability to its constituency and continued dominations of PRIs by traditional power groups will have to change before they are considered as partners by the donor agencies. However in the longer term, to ensure the sustainability of these projects, PRIs will have to be involved.

Implications for policy and research: It is important that the capacity of PRIs to participate in development projects be strengthened. This means a much focused programme of capacity building than has been implemented in the past by the state governments. NGOs are best placed to do it but would need political commitment from the government and support from donors.

In the light of the conflicting evidence of who would be an appropriate partner, the links between political decentralisation and use of project-based committees needs to be studied. Understanding and then establishing links between Panchayats and user committees will help in the development of village commons and Panchayat lands in a more systematic manner. It would help to improve sustainability of donor projects.

4. Overall Conclusions and Policy, Research and Project Options

4.1 Overall Conclusions

A Has the use of discretionary powers by the states created structures that make a significant difference in the way local community participates in local governance in the two States?

Both states have devolved considerable power to the village communities and their elected representatives. This devolution is stronger in MP where the Gram Sabha has monitoring and auditing control over the Panchayat. In Orissa the Gram Sabha is under the jurisdiction of the Panchayat.

However, low levels of awareness of the people and their poor cognisance of the powers and functions devolved to the elected representatives and to the community means that there is limited accountability to the constituency. Furthermore, the creation of the PRIs has not changed the traditional power relation as established power groups (upper castes and large landowners) dominate the decision making in the Panchayats. In MP the politics of co-option means that the leaders from minority groups have been drawn into main stream politics and feel diminished accountability to their constituency. It is pertinent to note that in Betul electoral politics have created new leadership that functions parallel to the traditional system. However, the young leaders find it difficult to maintain their independence and often join the established power groups. In Orissa the minority leaders tend to be ostracised, who then eventually stop participating in Panchayat meeting. In reality therefore, all decision-making powers in the Gram Panchayats in both states are firmly with the traditional power groups.

Undeniably, this is slowing down the process of empowerment and the path of local development remains skewed to serve the interest of the traditionally dominant groups.

B There has been no real distribution of power within the district

The new hierarchy of institutions created by legislation had tended to re-enforce the powers at district level and (in theory at least) at village level. As such the block level institutions have been marginalised to a degree. The real authority is being vested at District level through powers and responsibilities granted to bodies such as the DPC and DRDA. The new legislation has reinforced the power relations they were expected to change. Additionally, at the District level it is the government functionaries who exercise more power than the elected representatives with the real centre of power still with the District Collector.

The control exercised by the Block Level officials over the Panchayats and Gram Sabhas has buttressed corruption and diluted accountability among functionaries. Though the PRIs have the power to monitor activities of Line Departments, this does not happen in reality.

C The Zila Panchayats and district level authorities are limited in their ability to initiate any substantial local development

The reasons are:

1. Despite the wide ranging powers given to the District level authorities, they work within the confines of the centrally sponsored schemes and projects. These schemes are conceived for small scale improvements, with little scope for scaling up. Overall the emphasis of these schemes is on employment generation, income creation and alleviation of hardships. While all these objectives are important, their outcome does not provide an impetus to local growth.
2. The districts in India have considerable intra-district variation. The DRDA, and district level functionaries and ZP members show little initiative in trying to match local needs and potentials within the district with the kind of activities they promote. However, they critically recognise the lack to expertise at the district level to identify emergent markets.
3. The tied nature of central funds often mean that unsuitable activities are promoted or there is an under-spend of funds. There is limited scope for tailoring to local needs.
4. The BDO, who is technically placed to improve co-ordination between line departments is a low ranking official and has no prior input into plans. He has no prior notice of the schedule of programmes or the authority to ask for the information.
5. The continuing tension between line departments and the elected members means that each pursue their own interest and there is little synergy for wider development.

D Social Relations continue to influence type of non-farm activity undertaken

There are two points to be made.

1. As noted above there is has been little change in the traditional power relations. The dominant caste groups and landowners, who are also the main economic actors in the rural economy, are more aware of the rules, regulations and funding opportunities available under the current system. They generally have higher levels of social and human capital. With knowledge of funding available they tend to corner these and can easily diversify their activities out of agriculture, and sometimes into urban centres.
2. Caste still dominates the type of non-farm economic activities that can be undertaken in a village. There are two implications. One, it is important that traditional skills are not lost. However, promoting activities depending on traditional, caste-based skills has to be carefully approached to ensure that it does not reinforce undemocratic social structures. Two, in addition to reasons of economies of scale and availability of relatively better infrastructure, and since caste is less of an issue

in urban settlements, small towns may be better entry points for promoting rural non-farm activities, than villages. Creating livelihood opportunities outside the rural milieu could help loosen the traditional social relations. However, research on RNFE has shown that often the educated and those with greater resources tend to corner the higher value-adding work created in urban areas.

E. Does the current regime of PRIs provide supportive governance for the development of RNFE?

One of the objectives of democratic decentralisation was that it would enhance local development; hence, powers to manage local resources were devolved. Our study shows that the Panchayats do not see themselves as agents of development. It is identified as the domain of line departments. As such these institutions have not been directly involved in promoting livelihoods or in enabling forms of supportive governance. However, their impact has been in the area of welfare support, improving nutrition and health care and education. The role is essentially welfare orientated. This is reinforced by the community who perceive them as welfare institutions.

The Gram Panchayats implement the Employment Assurance Scheme, where they have demonstrated their capability to execute such project. Local wage labour employment is generated annually by the implementation these schemes, which undertake small-scale construction projects. This has benefited households below the Poverty Line. As such, the community considers that the main focus of future PRI activities should be on generating wage labour employment opportunities.

As noted above, these schemes undertake the construction of small-scale infrastructure improvements. However, each year these projects are chosen on an ad-hoc basis for employment generation with no systematic planning. If a more systematic and structured approach could be taken, then the small infrastructure improvements could have a cumulative effect over the years. This would be fundamental to diversifying village level activities. There is a need to address this lack of overall development perspective.

This situation is further exacerbated by the fact, that the Sarpanch who realistically takes the decisions, will chose the projects and their location. These decisions are more influenced by his, and his family's interests.

F Does the current funding system encourage local development initiatives?

Substantial funding flows from the governments to the PRIs. However, there has been no commensurate development. The PRIs have been given some fiscal powers to raise taxes, but these are not used. This trend has been widely noted. The Panchayats like to limit their dependency on internal resources such as taxes, revenue from common pool resources, etc., and instead try to mobilise funds from outside, as people are less likely to request a social audit (i.e., accountability of PRI) if they are not asked to pay taxes. Moreover, the Panchayats acts as contractors for the government projects. This provides its members with the scope for personal enrichment. There is no question of accountability.

This also explains why, even though the PRIs complain about the tied nature of funds, they have no interest in changing the system. It appears that the current pattern of skewed development will continue until the wider problem of funding is addressed at national and at state levels.

G Other institutions of local governance

The traditional institutions are generally based on caste lines and more concerned with social rather than economic issues. User committees tied to donor projects and government schemes are involved in some non-farm activities. However, none of these have any links with each other or the PRIs. There are overlaps in areas in project objectives and activities, yet each continues to operate in their own space.

SHGs emerge as a popular instrument for development with both the bureaucracy and the people. It is a successful strategy to generate small sums of income but more co-ordination between line departments is necessary to make them sustainable. Furthermore, improved information on potential markets; allowing markets to dictate the activities of these groups rather than seeking markets after choice of product/service; and tailoring training programmes to meet skills demand is necessary if there is going to be any scaling up of these group activities.

H Partners in local development

As noted, there are conflicting arguments and evidence as to who, PRIs or user committees, should be involved in the implementation of rural development programmes at the village level. Our analysis shows that PRIs in both MP and Orissa are still struggling to understand the powers and functions devolved to them. Further, the lack of transparency in PRI; and continued dominations of PRIs by traditional power groups, means that user groups/committees (who are equally dominated by traditional power groups) will remain as important partners in rural development. However in the longer term, to ensure the sustainability of these projects, PRIs will have to be involved.

4.2 Policy, Research and Project Options

Admittedly, the analysis comes up with few encouraging and positive findings. However, this in itself provides pointers for policy and project intervention. The problems being addressed are complex and often difficult to address. This section focuses on options which are considered realistic and achievable. These are discussed at three levels.

A Local Level Initiatives

Awareness raising and capacity building: There are two target groups for this, the community and the elected representatives. It is important to raise the confidence of, and the awareness of the community of the powers bestowed on them. A long-term strategy would be to use the current network of village schools. In MP, the Education Guarantee Scheme is an example of successful co-operation between the Panchayats and the state government, through the Rajiv Gandhi Mission. The Panchayats were

expected to identify demand for education, that is, identify a minimum number of students who wished to go to school and where no schools were available within a kilometre, then the state would release the money for a school to be set up and for the teacher's salary. The space and the teacher are being provided by the Panchayat. Under this scheme 20,000 schools were set up in three years. Though there is scepticism about the scheme- that standards may have been sacrificed as the teacher is expected only to have successfully completed Standard 12-, rural MP now has a reasonable network of schools. This network could be used to include lessons to build awareness of the local institutions among the young. **This could be a state policy initiative.**

Our study has shown that over the last six years there have been several attempts to improve the awareness and capacity of elected representatives. These efforts have had little impact. Raising the awareness among the local community of their rights therefore still remains an important alternative. An option would be to target user groups which have already been formed. A **donor funded project** could use the different committees set up by line department projects as the target group. The user groups could provide direct feedback to the Gram Panchayat, which can provide PRI members with a more focused view of local needs and effectiveness (or otherwise) of service provision and/or development capacity.

It has already been mentioned that membership of these village committees is a source of potential future village level leadership. Furthermore, the example of the women's self help group in Andhra Pradesh in pushing the Anti-Arrack measures is a case in hand. This was achieved by targeting awareness-raising among women's self help groups.

Building on their strength: The PRIs have demonstrated that they can successfully implement small-scale, village-level infrastructure projects. This can be used as a basis to build a more coherent and less ad-hoc approach to local planning and subsequent implementation. Currently the selection of projects is on an ad-hoc basis as the main objective of the schemes is employment generation and not infrastructure development. A programme could be undertaken to build up a simple plan for village level infrastructure improvements to be implemented through the existing schemes. The Plan could be developed by systematically assessing the local infrastructure needs, related to the potential for diversifying the local economy, with the involvement of the local community. **This process could be assisted through a donor project** and via user groups, to progressively generate more coherent planning and implementation capacity. Involvement of the user groups would mean wider awareness in the community, making it more difficult for the *Sarpanch* to take unilateral decisions.

It is pertinent to note here that it is necessary to address the lack of a development perspective among the elected representatives. However, given the local financial dynamics, there will be little uptake of such notions. The issues of accountability and the problems associated with the current system of development funding have to be first addressed.

Strengthening PRIs to be partners in development: It has been noted, that it is important that PRIs are involved in local development projects to ensure sustainability of project benefits beyond the life of

the project. However, parallel user groups and committees remain the popular option. There is considerable scope to develop systems whereby local institutions complement each others functions and activities. Panchayats can provide planning and implementation components whilst parallel bodies/committees can mobilise the community. The latter includes SHGs which themselves would benefit from support in marketing, since micro-credit alone is insufficient.

B District Level Initiatives

Links between user committees and the three tiers of the Panchayat: In the light of the conflicting evidence of who would be an appropriate partner, the links between political decentralisation and use of project-based committees needs to be studied. A **research project** to understand links between Panchayats and user committees will help in the development of village commons and Panchayat lands in a more systematic manner. It would help to improve sustainability of donor projects.

Capacity Building and Marketing support for Self-Help Groups: These groups are being used by the central and state governments as one of the main instruments for local development. However, the kind of support being provided is not enough as SHGs remain small, fragmented and often unsustainable. Three areas can be targeted for intervention.

1. Capacity building in issues of local planning and marketing at the district level of government officials and of the elected representatives. Currently the capacity building programmes being run by the state governments do not deal with these economic issues. Such capacity building could also contribute to developing a more pro-active approach to local planning.

2. Marketing support for SHGs: A factor which tends to be neglected in programmes encouraging groups to produce goods for the market is the locations of the income generating activities. This is partly because of a blanket approach by district authorities, encouraging all groups to pursue the prescribed activities. Income generating activities need markets where people with disposable cash will buy goods and services. Therefore, it is **recommended that programmes should be more selective, and promote and locate certain income generating activities near markets in semi-urban areas, market centres and larger villages.**

To be effective in promoting economic activities the programmes at the base layer (e.g., at SHG level) must be accompanied by a secondary intervention strategy. Such a second layer can be in the form of a credit mechanism that has been added on to the primary mechanism, but can also be in the form of other business promotion programmes such as marketing assistance of business advisory services and technical (skills) training.

There are two issues related to marketing that are relevant for SHGs:

- (a) The marketability of the product or service provided or produced by the group, and
- (b) Market access.

Both are complementary, and initiatives in India have attempted to address both by training SHGs in producing high quality produce for which there is a market, and by facilitating market access. Some examples are given in Box1 and these could be the basis of future initiatives in the study area.

While these examples are encouraging, it is again not clear how many SHGs are benefiting from them. In India, unlike e.g., in large parts of Africa, it is still not fully acceptable by rural society that women are actively engaged in trade and other non-farm enterprises, especially if this implies travelling and dealing with male middlemen. As a result, women depend much more on SHGs than they do in Africa, where the bulk of self-employment is through individual women using informal channels of credit and marketing. **As this option is not open for the majority of Indian women, the need to link SHGs to markets through formal channels is greater.**

3 **Scaling Up:** Marketing initiatives like the ones described above cannot work with only one SHG - they require that groups are organised at a higher level. NGOs and government have promoted forming federations or apex bodies of SHGs programs for a number of years, with the main aim of strengthening rural people's participation in decisions taken outside their own community.

There are obvious advantages in federation, and all Indian states are following this approach, albeit at different speed with different degrees of federation. In terms of employment generation and enterprise development, federations are likely to have a much larger impact than individual SHGs, because **training and marketing can be organised more rationally**. SHG federations also provide the opportunity for poor people to influence policies and to constitute effective pressure groups at the district and state levels.

Thus, the promotion of SHGs has to be accompanied by training and marketing support if the groups' activities are to be sustainable. It is also important to note that location of such activities is important as it has implications for marketing of the product(s). Federation up to the district level becomes an important strategy as it allows rationalisation of training and marketing support.

Box 2: Examples of Marketing Support to Self Help Groups

1. Supporting SHGs in marketing their produce is the DWCRA programme in Andhra Pradesh. Marketing support is provided to the SHGs through DWCRA Bazaars (Market outlets), which have been set up in all the districts, and a permanent DWCRA Bazaar is nearing completion at Hyderabad. Products worth more than Rs.100 crores (1crore=10m) were sold through DWCRA Bazaars in the last two years. Training and Technology Development Centres (TTDC) have been established in each district to introduce innovative technologies for the qualitative improvement of products made by the SHGs. The SHGs in the districts are assisted to develop branding of their products and women are encouraged to participate in fairs taking place at national level and in other states. Leading super markets like Food World, Thrinethra super market have come forward to tie up with SHGs to market DWCRA products. For some DWCRA products the demand is very high, for example pickle producing SHGs of Guntur district received orders worth Rs 600,000 lace-making groups of West Godavari district got export orders (<http://www.ap.nic.in/dwcra/>).

2 Prakash and Nehru (1998) describe the initiative of the Kerala Horticulture Development Programme that was set up in co-operation between the European Union and the Government of Kerala in 1993. The programme builds on SHGs, which select Master Farmers who are trained and act as facilitators. Besides horticultural crop production, the programme also assists SHGs in processing and marketing of products. The marketing infrastructure at site level includes establishing field centres for bulking the produce from 10-15 SHGs. The concept of these centres envisages creating farmers' markets and benefiting from agglomeration advantages - both in terms of sale to wholesalers and commission agents, and in terms of market information. The programme is considered a success in bringing SHGs closer to the market.

3 There are a number of examples whereby SHGs are producing crafts for both the Indian market and export - or even for sale via the Internet. One such initiative is "GlobalMarketplace.Org", a dot com company that sells handicrafts produced by SHGs in India through a number of non-profit community development organisations. The purpose is to reduce poverty around the world by selling local village crafts and clothing at a fair price via the Online Global Marketplace and to return as much of the sales price as possible to the local artist (see <http://www.globalmarketplace.org/cmffromindia.html>).

4 Handicrafts produced by the SHGs are supported by NEED (Network of Entrepreneurship and Economic Development), a Lucknow-based NGO. NEED promotes SHGs of poor women through a system of micro-finance and promoting entrepreneurial activities.

5 In Goa, the District Rural Development Agency maintains a web site where SHGs can present and market their produce, most of which is again handicraft. DRDA also organises exhibitions and craft fairs with the aim of promoting traditional crafts and linking producers to consumers. It recognises that marketing is a key constraint to small-scale producers (<http://ruralbazargoa.nic.in/welcome.htm>).

C Wider issues

Accountability and national funding strategy: The funding of PRI activity remains a key issue. The analysis above has shown that a vast sum of money flows to the Panchayats through the Finance Commission and centrally sponsored and state schemes. There is no accountability of how these funds are used by the Panchayats. They avoid levying any tax to prevent a social audit by the constituency. Saxena (2003) recommends that the financial dependency of the Panchayats on central and state funds should be reduced. This could be done by reducing funds given by the Finance Commission and other development schemes. It would be balanced by an increase in their (PRIs) powers to generate revenue that would then receive matching grants from the centre. “The more dependent a PRI is on the mass of its citizens for financial resources, the more likely it is to use scarce material resources to promote human development and reduce poverty” (*op cit.*). PRIs would thus be more responsible and accountable. These issues need to be addressed at the **national policy level**.

Additionally, decisions need to be taken over the appropriate level of authority to allocate to the different tiers of PRI. Debate in India continues over whether Blocks or District levels should be given more power.

Annex 1

Study Area: The Districts of Betul and Narsimhapur were chosen for research in Madhya Pradesh. Narsimhapur has relatively high agricultural potential and good road access; where as Betul District confronts a number of agricultural constraints, with substantial, but diminishing forest resources. Betul has a high proportion of tribal population.

Table A1 Giving details of the Study Area

State	District	Block	
Madhya Pradesh	Narsimhapur	Gotegaon	
		Chichli	
	Betul	Betul	
		Bhimpur	
Orissa	Balangir	Puintala	
		Belpara	
		Patnagarh	
		Titlagarh	
	Nayagarh		
			Odegaon
			Daspalla
			Gania
			Khanapada

Methodology: A two-tiered methodology was developed to assess the effects of local governance on the development of the RNFE. The research strategy was therefore to undertake a top-down study in Phase 1 to analyse the structures of formal and informal institutions of local governance with the aim to assess their effectiveness. The results of this phase of analysis were reported in NRI Report No 2688. The second Phase of activity undertook a questionnaire-based household survey. It covered 400 households in each district, i.e., 800 households in each district.

The tools and techniques used in this phase were essentially implementing the survey, followed by in-depth discussions to draw out the details of the response; and semi-structured interviews to assess the perceptions of key stakeholders.

The questionnaire survey included the following steps:

- ◆ Brain storming sessions for design of the questionnaire;
- ◆ Preparation of questionnaire which focused on the activities of formal and informal local governance institutions and their impact on local development in general, and more specifically on the rural non-farm sector;
- ◆ Pre-testing the questionnaire;

- ◆ Finalisation of the questionnaire;
- ◆ Preparation of coding manual (by Dr P. Vegas, Independent Consultant);
- ◆ Sampling: A total of 800 households were interviewed in 16 villages belonging to 8 Panchayats. A proportionate sampling was used to reflect differences in size of population;
- ◆ Selection and orientation of field investigators;
- ◆ Data collection;
- ◆ Data cleaning;
- ◆ Data entry into database created by Dr P. Vegas.
- ◆ Data processing and analysis using SPSS, led by Dr P. Vegas; and
- ◆ Report writing.



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Enterprise Trade and Finance Group
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Kent ME4 4TB
United Kingdom

Tel: +44 (0)1634 883199
Fax: +44 (0)1634 883706
Email: nri@greenwich.ac.uk
<http://www.nri.org/rnfe/index.html>