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# POLITICAL WILL AND SUB-NATIONAL GOVERNANCE REFORM IN INDIA REFLECTIONS ON HDRS AND DEVELOPMENT POLICY LOANS

**Suraj Kumar***

*The paper analyses the experience of post-1995 India's two major interventions that had an explicit public policy orientation on sub-national governance reform (in contrast to more sectoral programmes) – the State Human Development Reports (SHDRs) supported by UNDP and the Development Policy Loans (DPL) supported by the World Bank. It describes the context, process and some of the results of each of these interventions, and also points out their limitations or constraints. In view of the stated reform objectives and agenda of both the interventions, the paper looks at the role of political will, and the challenge of harnessing political will through institutions of parliamentary democracy in India.*

## INTRODUCTION

*Context*

India's development trajectory since the early 1990s has been marked by two major policy shifts – liberalization of the economy and decentralization of development responsibility. Of course, there are contradictions between the two trends (with Panchayati Raj seen as a countervailing force to the forces of globalization). There are constant setbacks and advances in a near cyclical mode. It is incontrovertible, though that both of these have fundamentally re-aligned the nature and direction of governance in India. The imperative of governance reform in India is to ensure that the fruits of globalization and the potential benefits of decentralization are reaped to ensure growth that is "pro-poor, pro-nature, pro-women and pro-jobs", to paraphrase MS Swaminathan.

Globally, the concentration of poverty has shifted to middle income countries with stable political contexts. An Oxfam study (Sumner 2010)

*UNDP India Office, New Delhi

points out that almost 930 million (75 per cent of the world's poor live in Middle Income Countries (MICs) and only 25 per cent (approximately 370 million) lived in low income countries (LICs). This is in contrast to the situation in 1990 when LICs accounted for 93 per cent of the world's poor.

It has been pointed out by Oxfam that nearly 61 per cent of the world's poor are in non-conflict MICs, and only 11 per cent live in conflict-affected LICs (Sumner 2010)[1]. The classical conflation of poverty and civil war or insurgency is less true than before. The persistence of poverty in such a scenario is today more due to internal inequality and poor implementation in these countries. The solution accordingly lies increasingly in addressing internal distribution and implementation capacity issues rather than reliance on Overseas Development Assistance (ODA) and other concessional aid flows which are meant for filling recipient governments' fiscal and project investment gaps. This implies that the focus is increasingly on governance reform where national governments need to be persuaded (not only through external triggers but mainly by internal public opinion and champions for reform within the government) to change or modify ways of working and create an enabling environment to trigger and sustain the reforms.

In view of the limited and shrinking amounts of ODA (as also poor levels of ODA absorption – the global average being 15 per cent of ODA pledged), the "clout" of donor funding declines and reform processes are sustained more by persuasion rather than threat of withdrawal. In other words, "impact in MICs is more about influence than money".

*The Case for Sub-national Governance Reform*

In the case of South Asia, governance reform then requires influence governance at all levels, and in case of federal structures (as in India and Pakistan), "subnational reform" - at the province/ state levels - becomes more salient. The rationale for this is that governance reform requires sensitivity to local contexts, and accordingly its instruments calibrated to the diversity and disparities in human development among states in the country. Moreover, under the Eleventh Schedule of the Indian Constitution, the responsibility for key social sectors listed in the State List lies with State Governments, and the subjects listed under the Concurrent List are under the implementation domain of the State Government, while the authority to make national legislation and policy is with the Union Government.

[1] More recently the 21 April 2012 issue of the Economist noted: "In 1990 more than nine out of ten of the world's poorest ... lived in poor countries. Now, three quarters live in middle-income states such as China, India and Brazil. This is a problem for the World Bank because it mostly still lends to poor countries, not poor people".

In the context of decentralized governance or local self-government, the role of the State Governments is even more central (pun unintended), as the national legislation is indicative rather than imperative, as indicated by the usage "may" rather than "shall" in the 73rd and 74th Constitutional Amendments. As a result, conformity legislation and implementation mechanism is very much within the domain of State Governments and their subordinate agencies. Additionally, State Governments are key financiers of development programmes – with 57 per cent of government capital expenditure undertaken by state governments; globally, India is second only to China in terms of the volume of sub-national public expenditure (Howes et al 2008).

In 2000, 57 per cent of India's total government capital expenditure was financed by the states, as was 97 per cent of irrigation maintenance, 39 per cent of road maintenance, 90 per cent of public health expenditure, and 86 per cent of public education expenditure.[2] In view of the above contextual factors, governance reform at sub-national (state and below) levels becomes especially imperative in order for us to have an understanding of the extent to which the situation on the ground is affected by national reform signals and public policy.

*Drivers of State level Reform*

The drivers of state level reform in India, remarkable for an otherwise diverse country with varying political contours, were similar not only across states but also consistent with the drivers of reform at the national level. Just as the balance of payments crisis in the early 1990s drove the wider adoption of the economic reform agenda at the Centre, the crisis of state finances (and the ballooning of internal debt- with the decline in State Revenues to 10 per cent of GDP and increase of nearly 30 per cent in real wages for civil servants) drove the agenda of state level governance reform.

The imposition of a "hard budget constraint" entailed State Governments' compression of expenditures (zero or near-zero fiscal deficit targets) and reliance on private capital flows and external assistance. At the same time, with the passage of the 73rd and 74th Amendments, the onus of decentralization also fell on State Governments who had to put in place new institutional arrangements such as State Finance Commissions and

[2] In 2000, 57 per cent of India's total government capital expenditure was financed by the states, as was 97 per cent of irrigation maintenance, 39 per cent of road maintenance, 90 per cent of public health expenditure, and 86 per cent of public education expenditure.

constitutionally mandated (and therefore permanent) Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs).

In contrast to the pre-1990s situation where policies on these issues were relatively uniform across states and driven by the Centre, the new scenario meant each state had to play its own role to attract investment, restructure its finances and local governance mechanisms. This entailed a mix of competition and cooperation between and among State Governments. A study of the World Bank's Policy Based Lending in India has highlighted two significant reasons: "... first, the big push starting in 1991 to liberalize the trade and investment regime led to increased competition between states to attract business and investment; second, the 1990s witnessed an acceleration in the decline of the once nationally-dominant Congress Party and the emergence of regional political parties"[3].

State Governments also found increasing common ground vis-à-vis the Centre on issues ranging from Panchayati Raj to power sector, cooperatives, Value Added Tax (VAT) and availability of external assistance for social sectors. Of course, the imperative also meant greater focus on debt management and reform of implementation arrangements, where there was increased scope for mutual learning and "sharing of best practices". The 1990s therefore required State Government in India to increasingly design their own state specific policy agenda and evolve public policy platforms to signal their commitment reform and good governance – both to leverage external assistance required for doing business differently and assure potential private sector players that the state indeed had an enabling environment for meaningful investment. Suffice it to say that when State Human Development Reports (and Development Policy Loans) arrived on the scene in India, it was indeed a time for "markets opening to commerce and minds opening to ideas[4].

*Political Will: the Ghost in the Machine*

With Governance Reform being increasingly predicated in MICs on more on influence and persuasion rather than financial muscle, it becomes important to assay political will and the mechanisms for gaining and then exerting influence/persuading change in the direction for reform. Political will has been defined as "...commitment of actors to undertake actions to achieve a set of objectives – and to sustain the costs of those actions over time" (Brinkerhoff 2010). For students and practitioners of public policy, therefore, the role of political will in triggering and sustaining reform, as

[3] Howes et al 2008

[4] Victor Hugo's Opening Address at Paris Peace Congress August 1849