

## A THEORETICAL NOTE ON KERALA-STYLE DECENTRALIZED PLANNING

Prabhat Patnaik

The "Peoples' Plan campaign" in Kerala, which led to the devolution of nearly a third of the Plan outlay of the State to Local Self Government Institutions to spend on projects of their choice, has of late generated much controversy. Many have even argued that "decentralization" is a part of the imperialist agenda and that the Left's adoption of it represents a capitulation (which can be explained only through the "erroneous" activities and understanding of some leading Comrades). This entire line of criticism however misses a basic point, namely that the "decentralization" proposed by the Left, propagated through the Peoples' Plan campaign, and implemented during the years of LDF rule is *fundamentally different* from the "decentralization" promoted by the World Bank and other imperialist agencies. While the "decentralization" agenda of the Left is a means of carrying class-struggle forward, of buttressing the class-strength of the rural poor by developing institutions where they can, in principle, assert themselves directly and hence more effectively, the "decentralization" promoted by the imperialist agencies has precisely the opposite objective, of blunting class-struggle, of encouraging a scenario of "obedient-and-suppliant-villagers-being-patronized-by-NGOs", and of substituting the concept of the "Rights" of the people by the concept of "Self-Help". In pushing their agenda, it is in the interests of the imperialist agencies to pretend as if there is no difference between their programme and the Left programme. But for that very reason it is essential for the Left to emphasize in every possible manner the difference between the two agendas, to highlight the specificity of the imperialist agenda, if it is to defeat the latter.

I

It is a deliberate ploy of imperialism to borrow concepts from the Left and incorporate them into its own lexicon after giving them a different meaning. This habit of borrowing concepts serves many purposes: first, the analytical depth that is usually associated with any Left concept is mistakenly attributed to the imperialist concept as well and imparts a prestige to imperialist theory; secondly, since the same concept is used by the enemies of the Left as by the Left itself, it creates confusion in Left ranks, and blunts a basic weapon of the latter, namely theoretical clarity; thirdly, by creating fuzziness around basic concepts imperialism seeks to destroy clarity of thinking in society as a whole, which helps to establish and perpetuate its hegemony.

Consider an example. Terms like "structure", "structural change", "structuralism", and "structural reforms" were originally developed in the

ranks of the Left as a critique of imperialist theory. As against the standard imperialist view that the free market was the panacea for the ills of the third world, the Left advanced the theory that the third world needed a rupture with the structures inherited from its colonial and semi-colonial past, via land reforms, via de-linking from the imperialist-dominated world market, via building up the public sector as a bulwark against metropolitan capital, and via a rapid process of planned industrialization. This was so clear an intellectual divide that the term "structure" was as much a short-hand for Left thinking as "market" was for the Right. And yet today the term "structural adjustment" has become a central part of Fund-Bank theory; *it is given a meaning that is precisely the opposite of what it originally meant within the Left lexicon, namely "opening" the economy to the free play of the so-called market forces.* Imperialist agencies simply took over a Left concept and used it for their own purposes after giving it a different meaning.

The same is happening today to the concept of "decentralization", which has been for a very long time, and particularly, in India, for the last quarter of a century, i.e. since 1977 when the Left Front government came to power in West Bengal, an integral part of the Left lexicon. This was long before the so-called "economic reforms" began and the Fund and the Bank started strutting around on the Indian scene. But soon they, and other imperialist agencies like the ADB and DFID, started talking about "decentralization" as if they had invented the term, and *giving it a fundamentally different meaning from what it had as part of the Left lexicon.* So successful has been their ploy that today, as mentioned earlier, many who claim to owe allegiance to the Left have actually started demanding that the Left should have nothing to do with decentralization which is an imperialist concept and hence a part of an imperialist conspiracy. This is "liquidationism" at the level of theory. Instead of exposing the imperialist game of taking over Left concepts and exploiting their legitimacy for its own nefarious ends, this perception actually accepts imperialist claims of having authored the concepts themselves, and abandons legitimate democratic issues on the absurd ground that if imperialism is talking "about the same thing" then they cannot be legitimate democratic issues. The whole point however is that *imperialism is not talking about the same thing.*

My purpose in this paper is to distinguish between imperialism's concept of decentralization and the Left concept which, as already noted, is far older and rooted in its own philosophical tradition. I shall not however, for reasons of space, be going into the whole gamut of Left thinking on this question. I shall confine myself only to the concept of decentralized planning as conceived of and practiced by the LDF government in Kerala, examine its specificities, and show the difference between this practice and the one advocated by the imperialist agencies.

## II

Two basic questions can be asked about Kerala's "decentralization" experiment. First, what is its relationship with planning? And secondly,

what is its link with class-struggle in the countryside? In this section I shall address the first of these questions, keeping the second to the next section. Section IV discusses the contrast between this "decentralization" and the imperialist concept. The last section contains some concluding observations.

Even traditionally, i.e. *prior to the intrusion of the imperialist concept*, the term "decentralization" had been used in different contexts to mean several different things. To examine the specificity of the Kerala experiment therefore let me begin by distinguishing between some of these traditional meanings.

There are at least four different senses in which the term has been used in the economic literature. The first is decentralization as in a capitalist market economy, where there are a number of separate decision-makers, such as firms and consumers, and the overall functioning of the economy, its performance in any period and its dynamics over time, is a resultant of these dispersed individual decisions. By contrast a planned economy in its classical meaning is supposed to function on the basis of centralized decision-making. A comparison between the two systems of decision-making used to be a common theme in economics at one time, and the case for the superiority of the centralized system was argued on the grounds that it overcame the "anarchy of the market" to which Marx, and Keynes, in their different ways had drawn attention<sup>1</sup>. (Maurice Dobb and Michael Kalecki were perhaps the most persuasive presenters of this argument).

The other three senses in which the term has been used refer essentially to the context of a planned economy itself, but one which despite being planned is not centralized in the sense of being a "command economy". The second meaning of the term has to do with decentralization as an arrangement for information flow in a planned economy, such as was proposed famously by Oskar Lange and later by Kornai and Liptak. Of course the Lange vision of decentralization, and that of Kornai-Liptak, referred not to actual decentralization but merely to a procedure of central planning, to the operation, as Joan Robinson was to put it, of a "pseudo-market" in a planned economy, so that the plan gets finalized on the basis of a two-way flow of information between the central planner and the individual enterprises.

The idea is the following. The Central Planner announces a set of prices (these prices are only announced, they do not actually rule in any market), and on the basis of these prices the enterprises inform the Planner how much they would like to produce in order to maximize the enterprise profits. Since the sum of these output decisions would differ from what the Planner might wish to have as the Plan target, it would then announce a set of revised prices; and so the "iteration", i.e. the to-and-fro movement of information, would continue until a final Plan is prepared. The sole advantage of this "iteration" proposal is that the Planner does not need to have detailed knowledge of all the resources and raw

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<sup>1</sup>Keynes who was a liberal bourgeois economist aware of the fact that capitalism was subject to anarchy, wanted to preserve capitalism against the socialist threat by reforming it so that the basic property relations remained unchanged but there was "socialization of investment" through State intervention.

materials available with each and every enterprise<sup>2</sup>.

Even though this "iteration" is supposed to occur only through a "pseudo-market", i.e. only through an exchange of information to which there is no actual market counterpart, one could in principle even make this "iteration" occur in actual practice. The Central Planner could announce a set of prices, leave it to enterprises to produce amounts they like at these prices, and hold unsold amounts as stocks. In all cases where the stocks were large, the prices could be lowered and where they were small, prices could be increased, and so on. There would not then be one overall final plan, but a series of adjustments on an initial blue-print, approximating towards but never actually reaching a final consistent document. Room would have to be made in such a case through appropriate institutional provisions (e.g. larger inventories etc.) for the *realization* of such an approximate plan, but a planned economy of this sort could still function in a manner that curbs on the whole the anarchy of capitalism.

The third sense in which the term decentralization has been used is in the context of the view that the unit over which planning is done is not the country's economy as a whole but the economies of particular parts of it. Here we have not a change in the model of central planning, but a splitting up of the units over which the central plans are formulated. (And if we are talking not of a fully-planned economy but of a mixed or partially-planned economy, such as India was in its *dirigiste* phase, then "decentralization" would refer to a reduction in the size of the unit over which such partial planning is done.) An idea was current among several progressive thinkers in the country at one time that, barring a few areas such as defence, communications, and foreign policy etc., the rest of the functions of the government, including in particular development, should be undertaken by the State governments. Whether the Centre makes actual resources available to the States for this purpose, or resource-raising powers are themselves transferred to the States, this perception of "decentralization" amounts to a change *not in the relation between the plan and enterprises but in the unit over which planning, of whatever variety, occurs*.

The fourth concept of "decentralization" refers to a situation where, if an individual or collective unit is to be the beneficiary of a set of projects in a particular sphere, then they should be allowed to finalize the precise mix of such projects. This is nothing else but an extension of the principle that *when it comes to certain kinds of goods*, it is better that individuals (or families) are given the cash to purchase these goods<sup>3</sup>, rather than these goods being made directly available to them, a principle that often goes under the grandiose (and, in capitalist conditions, misleading) title of "consumers' sovereignty". In certain spheres in other words, "users' sovereignty" should be respected.

The last two meanings of the term "decentralization" might appear to be too close for drawing any worthwhile distinction between them, but

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<sup>2</sup> For a discussion of these issues see Maurice Dobb (1969).

<sup>3</sup> For a discussion of this principle as well as where it should not apply see Dobb (1969), Chapter 10.

there is a significant difference in "quantity" between the two cases which almost amounts to a difference in "quality". I perceive these four cases in the following terms respectively: "decentralization as anarchy", "decentralization as iteration", "decentralization as multiplication" and "decentralization as users' sovereignty". Of course in practice these different cases come not in pure form but often jumbled up, and neat pigeon-holing of any actual case of "decentralization" into any one of these cases may be difficult; nonetheless this distinction is useful for assessing the implications of particular cases of decentralization. For instance it would be grossly erroneous to see the Kerala case of "decentralization" through "peoples' planning" as engendering either "anarchy" or "multiplication" or mere "iteration". It is quite clearly of the fourth kind. It does not in principle negate planning (even of the sort we have in India); rather it is based on invoking, implicitly, the concept of "users' sovereignty" as justification for the devolution of plan funds to LSGIs for undertaking *certain kinds of projects* within an overall plan.

Two caveats have to be entered here. First, if a plan is to have consistency, i.e. various commodity balances have to be satisfied, then the fact that the mix of projects is left to the individual LSGIs would have problematical implications. Flow excess demands and flow excess supplies of particular commodities would arise on account of the fact that the decisions of the individual LSGIs are not co-ordinated *ex ante*. But this problem (as in the second case discussed above of real-life "iterative" planning) can be resolved through the holding of appropriate inventories. Secondly, if the LSGIs are to be not merely plan-fund-using institutions but are to take some initiative in mobilizing resources of their own and using these for their own purposes, or even taking on productive roles and using the proceeds obtained from doing so for their own purposes, then these activities and the expenditures generated on account of them would constitute "add-ons" to the basic plan of the economy. These "add-ons", since they are not based on any *ex ante* co-ordination, could upset the basic balance of the plan by creating *ex ante* flow excess demands and supplies. Once again however the problem can be handled by making prior provision for such contingencies through the appropriate provision of inventories or by maintaining a higher level of planned excess capacity in the productive sectors within the framework of the plan itself.

It follows then that the "peoples' planning" experiment of Kerala, while it entails "decentralization", in the sense that the budgeted amount earmarked as expenditure on certain items in the plan, such as rural infrastructure, is handed over to the LSGIs in order to reflect better the preferences of the users, does not mean a negation of planning. On the contrary it can be defended on the grounds of "users' sovereignty". True, the amount handed over to the LSGIs has been fixed as a percentage of the total plan outlay rather than being independently determined on the basis of the estimated expenditure under the relevant heads, but the figure for this percentage itself has been arrived at by considering the approximate proportion of expenditure actually incurred in the past on these items. Hence the "users' sovereignty" argument is not undermined by the fact of the devolution being fixed as a percentage of plan funds.

The additional merit of the Kerala experiment consists of the fact that "users' sovereignty" is sought to be exercised through *collective bodies directly or through their democratically elected representatives*. This brings me however to the second question that can be asked about Kerala's decentralization experiment.

### III

To see LSGIs as being uncontaminated by class-struggle would be an idealistic error, reminiscent of the old "village community" hypothesis of Baden Powell. They contain class contradictions, and the mode of use of resources devolved to them under the decentralization agenda occurs via class struggle (whose intensity however varies depending on the degree of antagonism that is immanent in the class configuration). But even if there was no decentralization and the mode of use of plan resources for these particular items was bureaucratically determined, then the outcome would still have been determined by class struggle, but class struggle over shaping *bureaucratic* preference. In short, decentralization neither does away with, nor engenders, class-struggle in the countryside which exists anyway and is a fact of life.

The impact of decentralization on this pre-existing fact of life can be three-fold. First, it provides an opportunity to the rural poor to assert themselves in a way that bureaucratic decision-making would not have made possible. True, the bureaucratic outcome may turn out in many instances to be more "humane", but it leaves no scope for the rural poor to realize their subjectivity in this domain. For this very reason however the need for organizing the rural poor to assert themselves becomes paramount, and this need can be fulfilled only through the intervention of a political Party. The idea of Party-less LSGIs in other words represents a throwback to the idealism of the "village community" concept. This greater ability on the part of the rural poor to assert themselves would necessarily come into conflict with the prevailing property relations in the countryside (except in situations where radical land redistribution has already been carried out), but that only underscores the fact that "*decentralization*" is a part of the dialectics of class struggle. It is not some "ideal" arrangement at which society can remain frozen, but part of the process of carrying forward the dialectics of class struggle, which does not necessarily mean of course a state of continuous violent conflict. (In fact the organization of the rural poor by a political Party committed to their emancipation is a means of *controlling violent conflict*).

Secondly, it provides a legacy for the construction of a better society. Any socialist society must build on the institutions bequeathed to it by the pre-existing society. Indeed a part of the reason for the excessive centralization, and the accompanying authoritarianism, that prevailed in the earlier socialist societies lay in the absence of any representative democratic institutions in these societies *prior to the emergence of socialism* on which the latter could build its foundations. In that sense the decentralization experiment, by empowering elected bodies, puts life into a whole range institutions on the basis of which a future society can be

built.

This argument must be sharply distinguished from the so-called "social capital" argument. First, we are talking here of representative political institutions, not clubs or *addas*, or religious gatherings, or the innumerable instances of *social interaction* among individuals that the so-called "social capital" theory picks up for celebration. The flourishing of such instances of social interaction is not only perfectly compatible with the putting in place of thoroughly *non-representative* political institutions, but has actually accompanied, throughout the history of modern India, the most bizarre attempts at the *denial* of political rights to large masses of the people. And secondly, we are talking about representative political institutions through which the conflict between classes plays itself out, not about institutions *sans* such conflict, and hence about institutions defending the *status quo*, which typically constitute the desideratum of "Social Capital" theory.

Thirdly, it trains the people in the art of book-keeping, in the art of responsible financial management etc. which constitutes another legacy for the future, apart from strengthening even the existing system of parliamentary democracy. One of the weaknesses of revolutionary Russia that Lenin had highlighted was the absence of knowledge of "bourgeois management principles". The overcoming of this absence, even partially, would go a long way towards providing the basis for the construction of a socialist society in the future.

While there is no conflict between the perspective of class struggle leading to the creation of a socialist society and the empowerment of the LSGs within our prevailing social order through greater devolution of resources (just as there is no conflict between such devolution and the erection of a planned economy), the opposite error can also be committed, namely the *the mistake of treating the LSGs as if they already constitute the organs of popular rule*. There is an ocean of difference between LSGs within a bourgeois-landlord order and "communes" in a socialist order. While the latter can be built, looking at the matter in very general terms, on the foundations provided by the former, the vast gulf between the two must not be overlooked.

#### IV

Let me now come to the difference between Kerala-style "decentralized planning" and the imperialist concept of decentralization. This latter has no theoretical basis, and hence is different from any of the four senses in which the term has been used in economic literature, to which reference was made earlier. Indeed it is never explicitly set out as one coherent vision; on the contrary, there is a certain (deliberate) fuzziness about it which allows it to mean all things to all people<sup>4</sup>. One therefore has to cull out the main features of this concept of decentralization not so much from theoretical writings on the subject as from the practices enforced on particular State governments, such as Andhra Pradesh, which have accepted the tutelage of imperialist

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<sup>4</sup> See for instance The World Bank (1997, 2000, 2002).

agencies. There is also an additional problem, namely there are *different* imperialist agencies lording over different States and over different sectors, which may make generalizations difficult. We can discern nonetheless a degree of consensus among them over conceptual issues, on the basis of which we can reconstruct the imperialist concept of decentralization.

This consensus arises above all from the fact that all of them see “decentralization”, even in the sense of devolution of powers and resources to lower tiers of administration, as an aid to a “free-market” economy. For instance the World Bank puts forward its fuzzy views on decentralization in a section of the *World Development Report 2002* which is titled *Building Institutions for Markets*. In other words “decentralization” for imperialist agencies is not a matter of relocating powers, resources and functions within an *activist* State (in matters of investment), but of building an apparatus that fits into the “neo-liberal” paradigm.

It is not surprising in this context that the following four propositions regarding decentralization are more or less common to all the imperialist agencies. First, while they talk about *Gram Sabhas* they invariably see the *Gram Sabhas* as being presided over, and led by, not the elected representatives of the people, but by outside officials. Their perspective in short is not one of strengthening representative institutions in the countryside, but of providing a democratic veneer to a process of essentially bureaucratic decision-making (which can always be manipulated to fall in line with their wishes). Secondly, they see the major tasks of the LSGIs being carried out through a number of Committees, consisting not of elected representatives of the people but of “experts” and corporate-NGOs, and *these are to be allowed to enter into direct negotiations with funding agencies for loans for particular projects*. Thirdly, their emphasis is on “Self-Help” groups rather than the “Right” of the LSGIs to a share of the Plan funds of the State government. To be sure, Self-Help groups can be of assistance to the rural poor under certain circumstances, but what is noteworthy about the perspective of these agencies is the overwhelming emphasis on these groups *to the exclusion of the LSGIs’ “Right” to Plan Funds*. And finally, whenever any infrastructure projects are undertaken at the local level, these agencies insist on the imposition of “user charges”, i.e. their exclusive emphasis is on the adoption of the commercial principle even in the matter of peoples’ access to basic amenities.

What these four propositions amount to is a negation of representative institutions, a negation of all political activity, reflective of class struggle in the countryside, in local government, a negation of “Rights” of the people to Plan Funds as users of infrastructure, and the erection of a *mai-baap* ethos, reminiscent of the old colonial administration trying to wear a paternalist cloak, with imperialist-aided NGOs being presented as the benevolent patrons of the countryside.

In short, this concept of “decentralization” visualizes a substitution of the State by a set of NGOs in the implementation of local projects, including especially social sector projects, the funds for which, whether drawn from the State budget or from foreign donors, are expended



through these NGOs. Putting it differently, imperialist "decentralization" is concerned neither with a particular model of planning, nor even a mere substitution of the free market for planning, *but with establishing a direct access of imperialist agencies to the Indian countryside through a bunch of NGOs who are in no way accountable to the people.*

What is often missed by those who do not see the difference between Kerala-style decentralization and the World Bank concept is that *the LSGIs are also a part of the State apparatus.* Transferring certain responsibilities to the LSGIs therefore is tantamount to a redistribution of responsibility within the State structure, but a redistribution that has the aim of enforcing greater accountability of the State. The concept of "users' sovereignty" invoked above was linked essentially to this greater accountability. Such "sovereignty" could be exercised only because of the introduction of greater accountability on the State for which decentralization was a means. To be sure, the sheer fact of decentralization would not bring about all these changes; on the contrary, in regions where the poor are unorganized decentralization could have the opposite effect of strengthening the local oppressors, who, prior to decentralization, might have been kept in check through the actions of "benevolent" elements of the bureaucracy. But, *in principle,* democratic decentralization is to be preferred, no matter how unsatisfactory its immediate results (this point of course is not relevant for Kerala) , because it enforces greater accountability on the State and restores greater subjectivity to the people.

Imperialist decentralization however has nothing to do with the subjectivity of the people, even when the people are *consulted* on their preferences, since it operates not through *statutory* institutions but through *voluntary* organizations. Indeed its very objective is to reduce the scope for the operations of *statutory* institutions, and their replacement by voluntary agencies which are either directly funded by imperialist donors, or are funded from the State budget which in turn has come to depend heavily on imperialist sources for funding social sector expenditures. In short, World Bank decentralization refers essentially to a withdrawal of the State from the social sector, while the aim of decentralized planning was not a withdrawal but greater accountability of an activist State.

Enfeebling the third world State, even the third world bourgeois State, breaking down whatever relative autonomy it may have vis-à-vis imperialism, and reducing it to the status of either a collaborationist or a client or even a puppet State, is a persistent objective of imperialism. This is because a relatively autonomous third world State can act as a bulwark against imperialist domination. This enfeeblement is brought about through a number of different instruments. For instance the imposition of neo-liberal economic policies necessarily results in an accentuation of the fiscal crisis of the third world State, which is then used to induct direct funding of social sector expenditures by imperialist agencies (the DPEP is a classic example of this and there are designated "World Bank districts" in India where this important social sector expenditure has become the

responsibility of the Bank). The Bank's notion of "decentralization" is a part of this project of enfeebling the third world State, and is therefore well-integrated into the plethora of neo-liberal policies. One aspect of these policies which has been well recognized is the withdrawal of the State from an autonomous active role in the social sector *in favour of the market*; the other aspect which has received less attention however is the withdrawal of the State from an activist role in this sector in favour of imperialist agencies which then penetrate the countryside both directly and through imperialist-funded NGOs.

## V

It follows from what has just been said that, Kerala-style decentralization, far from being indistinguishable from imperialist decentralization, *actually faces a threat from the latter, or at any rate from the package of policies of which the latter is an integral part*. The real problem with Kerala-style decentralization in the present context lies in other words in the fact that it tends to get undermined not because of its own failings but *from outside: from the pursuit of the neo-liberal agenda by the country's government, and from its efforts to push neo-liberal "reforms" on the State governments*.

The neo-liberal dispensation necessarily implies an accentuation of the fiscal travails of the Central government, which the latter in turn passes down to the State governments. It is noteworthy that during the nineties the ratio of the Central government's tax revenue to the GDP went down while that of the State governments went up, and yet the latter were afflicted with acute fiscal crises by the beginning of the new century. It is not just one or two States that are facing fiscal difficulties but virtually every State, though to differing degrees. Reduced transfers from the Centre, and the pay-hikes in the wake of the Central government's acceptance of the Fifth Pay Commission report, have of course played their part in precipitating this fiscal crisis of the State governments. But a very important contributing factor has been the sharp increase in interest rates on State government debt.

The Central government's own borrowing rates have gone up with the end of the *ad hoc* Treasury Bills route, which came with neo-liberalism. What is more, the Centre has deliberately, gratuitously, and quite unwarrantedly, jacked up the rates of interest it charges on loans to the State governments, and used the debt-trap to which it has pushed the State governments to impose neo-liberal policies on them. It has even used the offices of the Eleventh Finance Commission to impose "reforms" on States as a pre-condition for their obtaining funds that are due to them anyway under the Constitution<sup>5</sup>!

With the State governments starved of funds, the LSGIs too find themselves short of resources. No worthwhile "local level planning" is possible under these circumstances. Besides, when the State governments are short of funds, they turn to international agencies like

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<sup>5</sup>A dissenting note by Dr. Amaresh Bagchi, a member of the Eleventh Finance Commission, took strong exception to this procedure adopted by the Commission.

the ADB or the World Bank for financing investment projects in rural areas which they themselves would have otherwise done<sup>6</sup>. These agencies in turn have their own ways of allocating their funds between projects, and monitoring the use of their funds in rural infrastructure, which either preclude the involvement of the LSGIs or give them at best a token role<sup>7</sup>. A vibrant programme of decentralization, which can lead to the greater assertiveness of the rural poor, thus runs counter in a fundamental sense to the trajectory of development of a neo-liberal economic regime.

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<sup>6</sup> This itself is the result of fallacious reasoning on the part of the Central government. Since no foreign exchange is required for such investments, borrowing from domestic banks which are flush with funds and would put very little "conditionalities" would have no worse consequences than borrowing from these agencies which do insist on "conditionalities". But the Central government is quite liberal in allowing the States to borrow from these agencies, and charges much higher interest rates to the states than these agencies do, while it is very strict in allowing States to borrow from domestic banks.

<sup>7</sup> When local agencies are to be involved in the implementation of such projects, then, as mentioned earlier, NGOs, or parallel institutions to the LSGIs as in Andhra Pradesh, seem to be the preferred option.