

VII.A.5. Non-institutionalism and Environmental Governance: The Case of Water

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This paper examines some of the contributions of the field of the neo-institutional economics in understanding failures of governance in water. The neo-institutional economics (NIE) is an emerging field that has developed over the last two decades, largely in response to the contributions of economists like Douglas North, Gray Libecap, Armen Alchian and others. Retaining the basic premise and assumptions of neo-classical economics, the neoinstitutionalists add to it the concepts of institutions, property rights and transactions cost. Together these concepts are used to explain social and economic phenomena.

This paper argues that the neo-institutional economics provides powerful explanations for failures of governance in water. What appears to be a physical problem is actually a problem, arising from poor accountability and inappropriate incentive structures. The paper traces the mismanagement of water resources at various levels in the country to the perverse incentives facing the providers. Examples are taken from the irrigation bureaucracy and drinking water utilities. The agency theory is used to explore alternatives. The paper establishes that restructuring accountability relations between the users and the providers will be essential to improve management. The relationship needs to be restructured so that the water bureaucracy is seen as the agent of the public and held directly accountable for its actions. For instance, it is essential to make the irrigation bureaucracy directly accountable to farmers. Examples from other countries that built in better accountability mechanisms to improve performance are used. The concept of transactions costs is used to understand failures of local governance in water through a discussion of issues in irrigation management transfer, water users organizations and the Panchayati Raj Institutions. The paper argues that local governance entails a coherent strategy for collective action and building in incentives for participation. The success of collective action also depends on how the transactions costs of it are borne.

Decentralization involves a redefinition of property rights in decision making and redefines the key actors. Since it dilutes the power of those who already enjoy it, they oppose it. The concept of transition costs is used to explain the slow progress of efforts at decentralization following the 73rd Amendment to the Constitution of India.