

Decentralization and Development: Dilemmas, Trade-offs and Safeguards

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After its many failures, the centralized state everywhere has lost a great deal of legitimacy.

- Decentralization is widely believed to promise a range of benefits, particularly in making governance more responsive and efficient in meeting local needs and preferences.**
- In a world of ethnic conflicts and separatist movements, decentralization is also regarded as a way of diffusing social and political tensions and enhancing social cohesion.**

Since different people mean different things by decentralization, let us be upfront in using the term to denote

devolution of political decision-making power to local-level small-scale entities

—by the latter I'd often mean village or municipal bodies or county-level governments, usually below the provincial level. We'll confine ourselves here to local governance, not to non-govt. community development projects.

Much of the large literature on fiscal federalism in developed countries relates to the economic efficiency of intergovernmental competition, and focuses on the trade-off between inter-jurisdictional externalities and local information advantages.

While those issues remain important, Bardhan (2002) emphasized some special issues that arise in the context of developing countries

--particularly on account of special institutional and political-economy factors.

These latter factors give rise to some governance dilemmas involving different kinds of trade-offs and antinomies that lend some ambiguity and complexity to the

outcome of decentralization, which is the focus of this lecture.

We'll also discuss some of the ways to **safeguard the decentralized governance structure in the light of these issues. The presence or absence of these safeguards explains some of the substantial heterogeneity in the observed experience in decentralization and development.**

Although we shall concentrate here on the role of decentralization in the delivery of public services, in China decentralization has been successfully used also for local business development

--just to give one example among many, the municipal government of Wuhu is the majority share-holder of one of China's most successful automobile companies, Chery Automobile.

But some of the local capture problems we shall emphasize later have also appeared in China, where local business in collusion with local officials have caused problems of

- Arbitrary land acquisition**
- Toxic pollution**
- Violation of safety standards in factories and mines**

Some checks from career advancement criteria for local officials

The Dilemma of Autonomy vs. Accountability

A major dilemma of governance institutions in a developing country is a trade-off between autonomy (from populist pressures), i.e. commitment to autonomous decision-making, and accountability, that is inevitably involved in most governance, including in the centralization vs. decentralization debate.

- **On the one hand, one needs institutions of credible commitment to insulate the system from marauding special interest groups and partisan or faction politics, which tend to bias the policies in favor of**

short-term payoffs at the expense of long-term investments.

It is easy to cite many instances of short-sighted political intervention in economic decisions in developing countries. In particular, long-term investment projects (say, on water or electricity) or economic policy decisions (say, regarding cost recovery from user charges) will not get off the ground without some credible commitment.

In the macro-economics literature the credible commitment problem is usually emphasized in the context of central bank independence, but the problem is much wider

and deeper, pervading many areas of public service.

In the decentralization debate this has also appeared in the problem of fiscal indiscipline and debt management on the part of local governments in some parts of Latin America (Mexico, Brazil, Uruguay, etc.), causing bail-out pressures and endangering macro-economic stability. (Bail-outs are usually quite regressive, as better-off local governments often have larger debts).

- On the other hand, too much insulation often means too little accountability. This leads to high-handed arbitrary centralized governance, leading to abuses and waste.

Even when the administration is benevolent, large-scale federal development projects directed from above by an insulated, distant bureaucracy are often

- **inappropriate technologically or environmentally**
- **far removed from or insensitive to local community needs and concerns, and**
- **failing to tap the large reservoir of local information, initiative, and ingenuity**

These projects often treat poor people as *objects* of the development process (not involving them in the participatory or deliberative processes), and end up

primarily serving as conduits of largesse for middlemen and contractors, and also encourage widespread parasitism on the state.

In a developing country where much of the economy is in the vast informal sector and dispersed in far-flung villages and small towns, the accountability mechanisms are particularly important at the local level.

In some sense the dilemma of autonomy vs. accountability is best resolved at the local level.

If commitment is necessary for long-term projects, it may be easier to persuade the local people to make sacrifices (and raise local

resources) for projects that are to benefit them in the long run.

This is particularly because of

- more visibility of official decision-making at the local level**
- transparency of benefits at that level**
- perceived legitimacy of the government**
- possibly more trust and peer monitoring among local citizens, and**
- resisting populist pressures may be easier to coordinate.**

In contrast, individuals and groups may perceive more uncertainty in the trickle-down from future growth arising out of large-scale centrally administered projects, and they may

instead opt for the ‘bird-in-hand’ of current handouts and short-term benefits.

Accountability is also more direct at the local level, if the local democratic processes work.

- There is more local vigilance on issues where more local stake is involved (“it’s our money you are wasting or stealing!”).**
- Electoral sanctions may be more effective at the local level, than at the central level where multi-dimensionality of electoral issues dilutes responsibility.**

Local vs. Supra-Local Knowledge/Information

Sometimes local short-sightedness is due to lack of local knowledge or information, say on matters of health, public sanitation, water quality, etc., particularly in conditions of poor education, information, or awareness. In view of the usual agglomeration economies and the consequent ‘brain drain’ of talent away from villages and small towns, supra-local guidance and expertise may be necessary.

But on other matters (say, on appropriate technology or in tapping indigenous natural and human resources) local knowledge may be superior to outside expertise.

Capture vs. Exit by Local Elite

In situations of serious economic or social inequality, there is the ever-present danger of capture of local institutions by the elite, interfering with the delivery of services to the poor and misappropriating and diverting funds to non-target groups.

- **For example, Araujo, Ferreira, Özler, and Lanjouw (2008) found in their study of Social Fund investment projects in Ecuador that projects in building latrines were less successful in communities with higher inequality.**
- **Galasso and Ravallion (2005) found that intra-village targeting of the Food for**

Education program in Bangladesh was worse in villages with greater land inequality.

- **Labonne and Chase (2009) find evidence from 66 communities in the Philippines that in more unequal villages there is capture by local leaders at the project proposal stage and these leaders exercise greater influence over resource allocation at the supra-village level meetings where proposed projects are approved.**

Of course, there can also be elite capture at the higher levels of government, but some people suspect that such capture is more at the local level.

- **Sometimes collusion is easier to organize at the proximate local level than at the central level, where there is more competition among disparate groups.**
- **There is also more media attention to the malfeasance of central governments.**
- **Civil society institutions are often weak in poor backward regions.**
- **In many countries socio-economic minorities are more vulnerable in areas of local elite control than under federal programs or supervision.**

Much, of course, depends on

- **the initial levels of inequality (both social and economic) which have a direct bearing on the social power of the elite;**

here the importance of land reforms and mass educational expansion is clear in making such collusion among a small clique more difficult

- **how lop-sided the nature of political competition is at the local level; examples of political competition in effective service delivery may be given from**
 - **Ecuador where the Araujo et al (2008) paper shows that vote share of the victorious party in the previous presidential election is negatively related to the probability of choosing a latrine project (which only the poor value) as against other projects**

- **West Bengal, India, where Bardhan and Mookherjee (2010) find some evidence that closer elections have been associated with somewhat better targeted delivery of benefits at the local level**
- **how regular and well-functioning are the deliberative processes of local democracy (public hearings, town hall meetings, etc.)**
- **how free is the flow of information about the functioning of governments, and about the entitlements and allocations at the local level; here the importance of information campaigns about resources allocated to local**

governments and how they have been spent and audited (if there are provisions of periodic independent audits of accounts). Ferraz and Finan (2009) show that in Brazil the release of audit reports on local government expenditure of federal transfers had a significant impact on the incumbent mayors' electoral performance, and this impact was more pronounced in municipalities where local radio was present to divulge the audit information. Francken, Minten and Swinnen (2009) show in Madagascar the negative impact of media on the local capture of public education funds (the negative effects are larger in more

educated communities which were presumably better able to information to monitor the providers).

On the other hand, if the local elite cannot capture the provision of public services, there is sometimes the opposite danger in their seceding from the system, and without their political support the institutional machinery of service delivery may collapse. This is particularly the case when leadership, organizational resources and expertise are currently provided by the elite in the local institutions. This is the familiar story of the rich turning to private schools and health clinics, and their exit playing havoc with the

condition of public schools and health clinics—both in rich and poor countries.

Intra-regional vs. Inter-regional Disparity in Access to Benefits

Even when local capture is not significant and there is not much disparity in access to benefits within a region, there are cases where decentralization accentuates inter-regional inequality in the distribution of benefits.

- **Galiani, Gertler, and Schargrotsky (2008) study the distributional effects of decentralization across municipalities on educational quality in Argentine secondary schools, and find that schools in poorer municipalities fell further behind, while those in better-off areas improved.**

This may happen because institutions of local democracy vary widely across areas, or because richer areas have more clout or lobbying power with higher authorities who allocate resources across areas.

- **Bardhan and Mookherjee (2006) found in their study of local governments in rural West Bengal that while intra-village distribution of benefits was relatively**

equitable (maybe on account of a successful prior land reform program), there was significant regressivity in inter-village allocation of benefits.

- **In China fiscal decentralization has increased inequality in the provision of basic social services between the richer coastal areas (with better revenue sources) and those in the interior provinces.**
- **Madeira (2007), in a study of the effect of school decentralization in the state of Sao Paulo in Brazil, finds that decentralization widened the gap between ‘good’ and ‘bad’ schools (as ranked by their initial dropout rates)**

Stake in Delivery of Public vs. Private Goods

There are differential degrees of public vigilance over (or effectiveness of) different types of delivery programs, as Bardhan and Mookherjee (2006) have found in their study of the nature of leakage from decentralized anti-poverty programs in West Bengal villages:

- **in the local government distribution of ‘private’ goods like subsidized credit or subsidized agricultural inputs, targeting was on average substantially pro-poor, and the leakages small**
- **but in the use of more ‘public’ fiscal grants there is evidence of significant**

local elite capture (both in intra-village and inter-village allocations).

There is a related finding in Olken's (2007) study of village road projects in Indonesia: he found that in grassroots monitoring there is more vigilance on corruption in matters like wage payments for private individuals, than in public procurement of materials for the roads.

Capture vs. Clientelism

The differential vigil by local communities on private vs. public services mentioned above may be reflected in the demand for different types of services. But from the supply side as well, politicians sometimes prefer delivering private goods to voters, in order to strengthen bonds of a patron-client political system.

Such private goods often take the form of recurrent jobs, subsidies and handouts, at the expense of investment in long-term public goods projects.

- In a household survey in rural West Bengal Bardhan, Mitra, Mookherjee, and Sarkar (2008) find evidence that voting behavior is significantly influenced more

by recurring benefits arranged by local governments (like subsidized credit or agricultural inputs, employment on public works, etc.) than by even large one-time benefits (like land reforms).

Measures of elite capture in the empirical literature on decentralization may thus not include that of political clientelism.

What is the difference between clientelism and capture?

Both distort the democratic process.

- Capture is about diversion of program benefits away from the intended beneficiaries through influencing and distorting the decision-making process.**

➤ **Clientelism is a diversion of benefits (both in amount and type of benefits, with emphasis on personalized, recurring benefits), often to swing voters in elections or to narrow sections of the ‘deserving poor’ with a view to their co-optation toward the formation of a minimum winning coalition .**

Capture need not reduce long-term public investment, but the benefits of that investment go only or mostly to the elite and powerful. In the case of clientelism those who benefit (from more personalized, usually private, goods) need not belong to the elite.

In Bardhan, Mookherjee, and Parra Torado (2010) we find some evidence from

a household survey in rural West Bengal consistent with a combined capture and clientelism model, where the elite captures the goods that are beneficial to them, and supports delivery to the poor of goods or benefits they themselves do not have much use for, thereby cementing patronage relationships.

The incidence of clientelism may depend on the stage of development.

- As incomes rise and markets develop, the need for political connections for jobs or personalized help (say in an emergency) may decline.**
- With the spread of education and information, the importance of the local**

vote mobilizer who provides selective benefits (the proverbial ward captain in Chicago precincts) diminishes, herding of voters by ethnicity or regional affinity may decline

- **Reduction of territorial insulation allows for supra-local affinities which diminish the importance of the local patron**
- **With economic growth, civic and business associations come up, which lead to organized lobbying-- capture becomes more important than clientelism.**

An open question for more research: is the central government any less susceptible to clientelism than local governments?

Decentralization as Administrative Measure vs. as Political Process

Tracing the impact of decentralization often raises a standard econometric problem of endogeneity. Before being too quick to claim that decentralization brought about certain outcomes, it is worth considering that decentralization may have resulted from ongoing political and economic changes that also affected these same outcomes. This is now leading to some studies that pay more attention to the identification strategy.

Apart from the econometric issue, a look at these changes is essential to understand the

political economy of the whole process. For example:

- **In many cases the poor design and implementation of decentralization are not necessarily due to ignorance or lack of experience. Many federal or provincial governments are unwilling to devolve powers and funds to local governments, and so there is a big gap between *de jure* and *de facto* decentralization.**
- **Higher level governments often devolve responsibilities for social services to the lower level, without corresponding devolution of funds or personnel—the notorious but frequent case of ‘unfunded mandates’. This is not out of absent-mindedness.**

- **In other cases there are overlapping jurisdictions and responsibilities between the local and provincial officials, making decentralization rather ineffective. The provincial officials are accountable upward, not to the local people; the accountability of local officials is hemmed in by their vertical fiscal dependence (as sources of local revenue are limited and inelastic, and as the inter-community allocations from above are in many cases at the discretion of higher-level officials, not formulae-driven).**
- **There is also insufficient effort to provide training and capacity-building for local government officials, particularly in**

matters of strategic planning and design of programs.

- **In other cases decentralization is a strategic tool in the competition for legitimacy and power. When a central authority is politically challenged by regional powers, the former sometimes uses decentralization as a way of bypassing the latter in resource transfer, and of directly cultivating channels of political patronage at sub-regional levels—and these attempts are often resisted and emasculated by the regional governments.**

On the positive side, some of the success stories of decentralization are generated by

**larger political movements of empowerment
(as happened in the process of the transition
to democracy in Brazil, South Africa and
Indonesia, or the indigenous peoples'
movements in parts of Latin America)**

Some Necessary Safeguards

- **Evaluate *de facto* devolution and service delivery based on community and household surveys implemented by independent agencies**
- **Necessary for central governments to intervene in instances where devolution or service performance falls below minimum standards, particularly in poor, backward areas**
- **Redistributive measures like land reform or expansion of mass education can reduce the extreme inequality that facilitates local capture and corruption**
- **As an antidote to elite capture political reservation for disadvantaged groups has**

been tried in some cases. There is now a growing empirical literature on its impact on targeting of benefits, starting with the papers by Chattopadhyay and Duflo (2003, 2004) which found significant positive effects of reservation of the position of village council head for women. The subsequent literature, including our own work—see Bardhan, Mookherjee, and Parra Torado (2010) and the literature cited there--has not confirmed this for the case of women, although there is evidence for political reservation for some ethnic minority groups in improving targeting of some benefits.

Of course, even apart from immediate benefits targeting, political reservation may have effects in empowering and confidence-building in potential leaders from disadvantaged groups over a period, as shown in the case of women by Beaman et al (2008). Bhavnani (2009) in an experimental study of the long-term impact of women's reservations in municipal councils in Mumbai finds that women's chances of winning ward elections were more than quintupled by reservations even in elections when the reservations were discontinued.

- Closely monitor elections, prevent manipulation of voting process, allow political parties in local elections,**

encourage competition from new entrants to incumbents

- **Audits from above, random checks by independent external auditors, penalties for malfeasance--advertise results before elections; and audits from below (for example, ‘social audits’ carried out by civil society groups in some areas in India on local public works programs)**
- **Explicit formulae for inter-regional allocations based on measures of need (case studies in Bolivia, South Africa and Indonesia suggest that formula-based grants can significantly improve inter-regional allocation)**
- **Create rules for intra-regional targeting based on surveys of socio-economic status**

- of households (as in centralized but relatively successful programs like Progressa or Oportunidades in Mexico)**
- **If exit by the elite tends to undermine the delivery structure of social services, it is important to organize**
 - **broad-based lobbies for those social services, where NGO's can play an important role**
 - **leadership training and capacity building (keeping in mind that there is significant 'learning by doing' in this process)**
 - **sometimes vouchers may give poor people access to private facilities patronized by the rich—though empirical evidence on the efficacy of**

vouchers in poor countries is scanty or mixed: the study by Hsieh and Urquiola (2006) of school vouchers in Chile does not show much improvement in average test scores

- **Build local civil society: mandatory village or town hall meetings to discuss major programs, or some experimental move toward participatory budgeting (as in Porto Alegre in Brazil), encourage consultation with local bodies and social groups (as in the District Primary Education Program in India), citizen oversight committees (as in Bolivia), etc.**
- **Transparency in flow of funds : for example, local governments should know**

what resources and powers they are entitled to; clear delineation of responsibilities between levels of government; assignment of powers to elected local officials over personnel working with or under them

- Citizen empowerment via clear legal rights and entitlements; ease of using legal system to demand information from local governments (e.g., Right to Information Act and Rural Employment Guarantee Act in India)**
- Social movements to raise the awareness of poor people of their entitlements and about the long-run value of public investment and services over clientelistic**

**dispensation of private goods by
politicians**