

Political Decentralization and Governance

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Lecture 20

Introduction: Centralized versus Decentralized Governance and Targeting

- 1950-90: Era of Centralized Implementation of Development Programs
- Implementation of programs at local level includes decisions such as
 - allocation of land, water, subsidized agricultural inputs (seeds, fertilizer, credit)
 - provision of local public goods (roads, sanitation, drinking water)
 - employment in public works
 - welfare services (health, housing, pensions)
- Centralized implementation: these decisions are delegated to a bureaucracy appointed by and answerable to the central government
- Decentralized implementation: delegated instead to representatives appointed or elected by local citizens

Example: Irrigation Management, India versus S Korea (Wade 1986)

- Robert Wade provided comparative assessment of irrigation services in state of AP, India, with S Korea
- Water officials allocate water released from government canals to local farmers
- India: officials are bureaucrats appointed by state government (located in distant state capital)
- S Korea: local water management delegated to elected head of local irrigation user association
- Korean system characterized by more responsive and accountable management: local canals are better maintained, less corruption/diversion etc.

Potential Advantages of Decentralized Governance

- *Information:* Managers are better informed about local conditions: can take quicker decisions to respond to local changes in need, availability etc.
- *Incentives:* Managers are more accountable to local citizens:
 - those appointing manager are better informed about actions taken by manager
 - can vote against incumbent managers who are not honest, competent or responsive
- Empowerment of local citizens seen as a way to improve accountability and performance of local managers
- Basis of support for decentralized governance by World Development Report 2004 of the World Bank

Preamble to WDR 2004

Too often, services fail poor people in access, in quality, and in affordability. But the fact that there are striking examples where basic services such as water, sanitation, health, education, and electricity do work for poor people means that governments and citizens can do a better job of providing them. Learning from success and understanding the sources of failure, this year's World Development Report, argues that services can be improved by putting poor people at the center of service provision. How? By enabling the poor to monitor and discipline service providers, by amplifying their voice in policymaking, and by strengthening the incentives for providers to serve the poor. (WDR 2004: Making Services Work for Poor People)

Potential Disadvantages of Decentralized Governance

- The argument that decentralization generates more accountability is however controversial
- Principal counter-argument:
 - *Capture by Local Elites*: made by designers of the US Constitution (James Madison, Alexander Hamilton) that local elites exert disproportionate influence at local level, while citizens are poorly informed, and there is lack of oversight mechanisms such as media and judiciary
- Other concerns about decentralization:
 - *Coordination and Free-Riding* across local governments to overcome externalities across jurisdictions (e.g., spillovers in water, roads, public health; race to the bottom in deregulation of private business)
 - *Competence, Loss of Scale Economies* lower level of technical expertise at local level, duplication of programs, efficiency losses owing to lower scale

Decentralization and Governance: Theoretical Predictions

- Bardhan-Mookherjee (AER 2000) provide a model of trade-offs between centralization and decentralization (based on an extension of the Grossman-Helpman (1996) model of elite capture), arguing that:
 - comparison of elite capture between national and local governments is theoretically ambiguous
 - effects of decentralization are likely to be highly heterogeneous across regions
- For instance, suppose that elite capture depends on inequality of the region in question
- Local areas differ in terms of inequality
- Inequality at the national level will be intermediate, more (less) unequal than the most (least) equal region
- Hence capture of the national government will be intermediate, subject to more (less) capture than the local government in the most (least) equal region

Empirical Evidence concerning Elite Capture

- Large empirical literature on elite capture, surveyed in Mansuri and Rao (*Localizing Development: Does Participation Work?*, World Bank Report, 2013)
- Definition of 'capture' in Mansuri and Rao:

lack of involvement of poor and marginalized groups in decision making, project outcomes that are less aligned with their needs, the capacity of elites to hijack programs to suit their ends, and the capacity of officials to pocket rents or divert resources

Summary of Findings in Mansuri and Rao, 2013

The studies generally show that capture tends to be higher in communities with greater inequality, those that are:

remote from centers of power; have low literacy; are poor; or have significant caste, race or gender disparities (Mansuri and Rao 2013, p. 5)

Evidence of Elite Capture Within Local Areas: Examples

- In Bangladesh: Galasso and Ravallion (JDE 2005) demonstrate intra-village targeting of a Food for Education program in Bangladesh was less pro-poor in villages that were more remote and had higher land inequality
- In Ecuador, Araujo et al.(JDE 2008) demonstrate that local communities were significantly less likely to select a pro-poor project in villages with greater inequality
- In Sierra Leone, Acemoglu et al. (AER 2014) find:
 - communities with fewer ruling chiefs (originally recognized by British colonial authorities) achieve significantly worse development outcomes today (e.g., nonagricultural employment, education, and child health)
 - interpret this as a result of reduced political competition among elites who play an important role in allocating land rights within the community

Direct Evidence on Effects of Decentralization relative to Centralization

- Comparison between Centralization and Decentralization: Effects of a nation-wide decentralization of public schools in Argentina between 1992 and 1994 (Galiani, Gertler and Schargrotsky J Pub Ec 2005)
 - treatment group: schools that were transferred from central to provincial control, compared with control group: schools under provincial control throughout
 - scores on standardized mathematics and language tests improved in the former in better-off provinces
 - became worse in less well-off provinces

Decentralization and Inter-Community Targeting

- Most of the existing literature has focused on determinants of intra-community targeting, and ignored issues of inter-community targeting (allocation of development expenditure programs *between* different regions/districts/villages)
- In the absence of decentralization, this is based on discretion of elected officials in the national or state government (so subject to elite capture: officials favor their own regions or 'swing' areas)
- With decentralization, local governments are often entitled to funds based on need (assessed on the basis of objective, transparent indicators of backwardness)

Decentralization and Inter-Community Targeting, contd.

- Evidence from political decentralization experiences of Bolivia (Faguet (2004)), South Africa (Wittenberg (2006)) that it resulted in significant redistribution of government expenditures between poor (rural/black) and well-off (urban/white) areas
- But in many other contexts of decentralization (eg India), resource transfers to local governments are not based on transparent formulae — examine a specific paper of mine (work-in-progress) next on this topic