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Notes on Decentralization

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Task Force on Decentralization

- We interpret decentralization in the sense of devolution of authority to local governments, where the latter's domain is relatively small. In countries with at least three tiers (center, state, and local), we are clearly referring to the last tier. Corruption in the form of cost-padding or diversion to non-target groups often characterizes the delivery of public services (education, health, water, power, credit, etc.) by officials of a central government in many developing and transition countries. Devolution of power over service procurement and delivery to elected local governments is increasingly being suggested (and adopted) as a way out. Local users can presumably evaluate local cost and need and monitor actual delivery patterns much better than monitors and supervisors of centralized systems. If there is a functioning local democracy, corrupt politicians can be penalized at local election time. The agenda in national elections usually have many more issues than the one about the performance of the centrally appointed local officials. Jurisdictional competition brings some choices in public services (allowing clients who are not well-served to move across jurisdictions) and thus may act as a check on local capture or corruption. It can also provide yardsticks for performance comparison that help monitoring by the local electorate.

- But local democracy does not function effectively in many developing and transition countries. In particular, they may be subject to capture by local elites, to an extent depending on levels of social and economic inequality within communities, traditions of political participation and voter awareness, fairness and regularity of elections, transparency in local decision-making processes and government accounts, media attention, etc. These vary widely across communities and countries, as documented in numerous case studies[1]. Of course, central governments are also subject to capture, but the elites are usually more divided at

[1] See, for example, R. Crook and J. Manor, *Democracy and decentralization in South Asia and West Africa,* Cambridge University Press, Cambridge, 1998; and J. Conning and M. Kevane, "Community based targeting mechanisms for social safety nets", mimeo, World Bank, 2000.

that level, with more competing and heterogeneous groups neutralizing one another. At the local level in situations of high inequality collusion may be easier to organize and enforce in small proximate groups (involving officials, politicians, contractors and interest groups); risks of being caught and reported are easier to manage, and the multiplex interlocking social and economic relationships among the local influential people may act as formidable barriers to entry into these cosy rental havens. At the central level in democratic countries more institutional mechanisms for checks and balances are usually at place: these include various constitutional forms of separation of powers and adjudicatory systems in some countries, more regular auditing of public accounts, more vigilance by national media, etc., much of which are often absent or highly ineffective at the local level.[2] Even in undemocratic but largely egalitarian societies the problem of local capture may be less acute. It is generally overlooked in the widely noted success story of decentralized rural-industrial development of China over the last two decades that the decollectivization of agriculture since 1978 represents one of the world's most egalitarian distributions of land cultivation rights (with the size of land cultivated by a household assigned almost always strictly in terms of its demographic size), and this may have substantially mitigated the problem of capture of local governments and other institutions by the oligarchic owners of immobile factors of production (like land), which afflicts other rural economies (for example, India).

- One way of avoiding the pre-emption of public delivery of goods and services by local special interest groups is for citizens to vote with their feet and move to a different locality with less capture, as is implied by the Tiebout mechanism, which

[2] In a theoretical paper, "Capture and Governance at Local and National Levels", *American Economic Review,* May 2000, P. Bardhan and D. Mookherjee argue that the overall comparison of capture at central and local levels in a democracy would depend on the interplay of a large number of underlying institutional factors, such as relative degrees of voter awareness and cohesiveness of special interest groups, the extent of heterogeneity across districts, and the nature of the national electoral system, and so the issue is ultimately context- and system-specific.

is a staple of much of the literature on fiscal federalism. There are doubts about this mechanism operating even in relatively mobile societies like that of the US[3]. It is even less relevant in the rural communities of poor countries (where communities are more face-to-face and social norms sharply distinguish 'outsiders' from 'insiders' especially with respect to entitlement to public services).

- There is some aggregative cross-country evidence (for 80 countries) that the effect of decentralization on corruption depends on how subnational expenditures are financed[4]. It is reasonable to presume that the local people are much more vigilant of official malfeasance with their own tax money than with some fiscal grants coming from the central government. Of course, in many poor regions taxable capacity of local governments is extremely limited. When the local government is prone to capture by the elite, user fee financing say, for public infrastructure services like water or power, may be advisable as it limits the ability of the elite, who are the largest users of those public services, to shift some of the financing burden to others[5]. In general the choice of mode of financing local expenditures is a key instrument in the design of decentralization initiatives.

- When the potential for capture of local governments is serious, decentralization programs have to focus a great deal of attention to strengthening local accountability mechanisms. In fact in policy debates when we consider the costs and benefits of redistributive policies (like land reforms, public health campaigns or literacy movements), we often ignore their

[3] There is, for instance, very little evidence of the 'welfare magnet' effect operating across US states. Very few poor people move from state to state in search of higher welfare benefits. See, for example, R.L.Hanson and J.T.Hartman," Do Welfare Magnets Attract? ", Institute for Research on Poverty, University of Wisconsin at Madison, 1994.

[4] See M. Barenstein and L. de Mello, "Fiscal decentralization and governance: a cross-country analysis", mimeo, IMF, 2001.

[5] This has been emphasized in P. Bardhan and D. Mookherjee, "Corruption and decentralization of infrastructure delivery in developing countries", mimeo, University of California at Berkeley, 2001.

substantial positive spillover effects in terms of enlarging the stake of large numbers of the poor in the system and strengthening the institutions of local democracy. Comparing across the various states in India, it is clear that local democracy and institutions of decentralization are more effective in the states (like Kerala and West Bengal) where land reforms and mass movements for raising political awareness have been more active. The 1996 National Election Survey data in India suggest[6] that in West Bengal 51 percent of the respondent voters expressed a high level of trust in their local government, whereas in the adjoining state of Bihar (where both land reforms and local democracy institutions have been very weak) the corresponding figure is 30 per cent. Near-universal literacy in Kerala has helped sustain widespread newspaper readership which has encouraged a vigilant press on issues like corruption in local governments.

- In both Kerala and West Bengal it has been observed that theft and corruption at the local level are more effectively resisted if regular local elections to select representatives in the local bodies are supplemented by an institutionalized system of periodic public hearings on items of major public expenditure. But even that is inadequate if the complaints made in public are not acted upon by the ruling party. There is evidence that sometimes the opposition parties or minority factions stop attending the village council meetings or the public hearings, as they perceive that they cannot do much about the ruling party's spending of public funds that takes the form of widespread distribution of patronage (like 'jobs for the boys' or what Italians call lottizzazione*)* which sometimes consolidate its electoral advantage. It is important to install public accounts committees at the local legislative level with their leading members taken from the opposition party (as is the case at the central parliamentary committees in India or Britain). In general the auditing process at the local level is extremely deficient, not always by design, but by the sheer dearth in the villages of technical capacity for accounting, record-keeping and auditing.

[6] See S. K. Mitra, and V.B. Singh, *Democracy and social change in India: a cross-sectional analysis of the*

- This is where technical and organizational assistance from national and international NGO's in capacity building can be extremely valuable. Apart from acting as watchdogs to abuses of power and making people aware of their rights and entitlements (as well as of the conflicts of interest in which officials they face may be implicated), these organizations can provide resources and technical personnel that complement whatever machinery exists for financial accounting. They may also provide leadership in movements for improving public accessibility to information that the government has but would prefer keeping secret. An exemplary role has been played by an Indian NGO, Mazdoor Kisan Shakti Sangathan in some otherwise backward rural districts in central and western India, organizing villagers to demand information (and public hearings) on the bills, invoices and master rolls from public works (which in this region are riddled with corruption). Many such NGO's have also lobbied with the Government of India for introducing a Freedom of Information Act (and thus repealing the Official Secrets Act of 1923 of British India, which officials usually cite as an excuse for withholding important public information). One problem that has come up in the public debate on the question is that implementing a Freedom of Information Act may overwhelm resource-poor government departments in the districts in catering to demands for information from numerous applicants, which may interfere with their usual functions. There are ways of handling this problem, for example, by limiting access to only members of representative institutions (like local village councils), but NGO's can also help in providing resources and personnel in copying the documents from government offices. In general, by tireless and sustained public campaigns to raise the social and political penalties of malfeasance a critical mass of opportunist officials and politicians have to be convinced over a long enough period that their attempts at capture and corruption are not cost-effective. This is a long and uphill battle, but well worth fighting.

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national electorate, Sage Publications, New Delhi, 1999.