

# Political Decentralization and Governance

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Lecture 21

# Introduction: Centralized versus Decentralized Governance and Targeting

- 1950-90: Era of Centralized Implementation of Development Programs
- 'Implementation' refers to allocations within and across local communities of
  - land, water, subsidized agricultural inputs (seeds, fertilizer, credit)
  - local public goods (roads, sanitation, drinking water)
  - employment in public works
  - welfare services (health, housing, education, pensions)
- Centralized (top-down) implementation: these decisions are delegated to a bureaucracy appointed by and answerable to the central government
- Decentralized (bottom-up) 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 very 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

# Research Agenda: Evaluating Performance of Decentralized Governance

- Large literature evaluating performance of decentralized governance, surveyed by Mansuri and Rao (*Localizing Development: Does Participation Work?* World Bank Policy Report 2012), and Mookherjee (*Political Decentralization*, Annual Review of Economics, 2015)
- In these lectures, I will provide an overview of some recent contributions to this literature

# Review of Predictions of Elite Capture Models

- Elite capture can arise when:
  - poor, low-educated, politically inactive/unaware constitute large proportion of the population
  - there are lobbies representing interests of elites with influence over political candidates/officials
- Elite capture increases with wealth inequality, and decreases with evenness of political competition
- Elite capture results in targeting failure of development programs, which are not delivered to (or responsive to needs of) the poor



# Empirical Evidence concerning Elite Capture

- Large empirical literature on elite capture, surveyed in Mansuri and Rao (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: Elite Capture and Local Inequality

- *Bangladesh*: intra-village targeting of a Food for Education program was less pro-poor in villages that were more remote and had higher land inequality ((Galasso and Ravallion (JPubEc 2005)))
- *Ecuador, Philippines*: local communities were significantly less likely to select a pro-poor project in villages with greater inequality (Araujo et al.(JPubEc 2008), Labonne-Chase (World Dev 2009))
- *India*: landed elites block development programs to prevent upward pressure on agricultural wages (Kochar JDE 2008), or to prevent erosion of clientelistic power (Anderson et al (AER 2015))

# Evidence: Elite Capture and Political Competition

- *Sierra Leone*: Acemoglu et al. (JPE 2014):
  - 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)
  - results from reduced political competition among elites who play an important role in allocating land rights within the community
- *India*: Bardhan-Mookherjee (AER 2010): exogenous shocks which reduced political competition caused local governments (dominated by Left parties) to implement less land reforms (land titles, tenancy registration) in West Bengal between 1978-98

# RCT Based Evidence on Elite Capture

- *Indonesia*: Alatas et al (AER 2012, JPE 2013) experimentally vary method of selecting cash-transfer beneficiaries living below the poverty line
  - three treatments: community leaders, community groups, formula based on hh survey data on household incomes and needs
  - No evidence of elite capture in low stakes experiment; some evidence in high stakes experiment but quantitatively small
- *Uganda*: Bjorkman-Svensson (QJE 2009) experimentally vary extent of community involvement in health clinics, find higher levels of service delivery and corresponding improvements in child health

# Evidence: Comparison between Centralization and Decentralization

- There are relatively few (well identified) studies of this
- Nation-wide decentralization of public schools in Argentina between 1992 and 1994 (Galiani, Gertler and Schargrotsky JPubEc 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

# Effectiveness of Institutional/Policy Reforms to Reduce Elite Capture

- *Media/Information/Audits:*

- Newspaper campaign in Uganda providing parents with information about school grants reduced diversion of school funds (Reinikka-Svensson (QJE 2005))
- Federal audit reports of corrupt local government mayors reduced their re-election chances in Brazil (Ferraz-Finan (QJE 2008))
- Distributing report cards on performance of municipal government officials in Delhi slums raised vote shares of better performing incumbents (Banerjee et al 2010)

## Effectiveness of Institutional/Policy Reforms to Reduce Elite Capture, contd.

- *Gender/Caste Reservations for Mayor Positions*: Evidence in India showing effectiveness of:
  - gender based reservations in increasing responsiveness of local public goods towards women's priorities (Chattopadhyay-Duflo (Ecta 2004))
  - SC reservations in increasing share of SC households in private transfers (Besley et al (JEEA 2004), Bardhan et al (JGD 2010))
- *Community Involvement in Service Provision*: positive effects in Uganda (Bjorkman-Svensson (2009)), limited effects in Indonesia (Alatas et al (2012, 2013))