

Decentralization and Development: Dilemmas and Trade-offs

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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.

Yet there is also much skepticism and awareness of potential pitfalls concerning the extent to which decentralization will actually succeed in achieving this promise.

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, below the provincial or even district 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.

But 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.

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 arms-length institutions with credible commitment to insulate the system from political interventions, from special interest groups and partisan or faction politics.
- 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. Democratic decentralization can play an important role in promoting popular participation in these deliberative processes.

- 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.

Example of some effects of decentralization in West Bengal (apart from its important role in land reform in earlier decades and distribution of subsidized agricultural inputs to poor farmers):

In West Bengal, as in most states, the state government is mainly responsible for primary education, in all its teaching, finance, monitoring and infrastructure needs, with often dire results in school functioning (including rampant teacher absenteeism and indifference to teaching).

But in the parallel stream of SSK (shishu shiksha kendra), run by the Panchayat Ministry, involving para-teachers (paid much less than regular teachers, from funds managed by the School Management Committee constituted by Gram Sansad and in which parents are more involved) the performance indicators in terms

of teacher absenteeism and parent satisfaction have been significantly better.

Accountability is, of course, more direct at the local level, if the local democratic processes and local own-revenue mobilizations 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

Dissatisfaction with Local Leaders on Different Dimensions: Left vs TMC

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Voting Patterns in WB

Dissatisfaction with Non-Local Leaders on Different Dimensions: Left vs TMC



Table 13B: Mean 2011 Scores for Dissatisfaction with Non-Local Leaders on Different Dimension

	GP Left dominated		GP TMC dominated		P-value
	Mean	Std. Dev.	Mean	Std. Dev.	
Leader's Image	3.01	1.35	3.00	0.98	
Image of Party Worker	2.80	1.25	2.81	0.95	
Party Organization	2.69***	1.26	2.46	1.11	
Extension to which Party Espouses Causes of Hatred/ Divisiveness	2.33***	1.23	2.10	1.13	
Party Activities	2.37***	1.21	2.08	1.15	
Bad Policies	2.24**	1.27	2.10	1.19	
Pro-Poor Attitude	2.76	1.14	2.78	1.01	
Relation with Other Political Parties	2.51	1.15	2.47	1.01	
Attitude Towards Women	3.10***	1.13	2.95	0.97	
Relations with Citizens/ Local Community	2.80***	1.24	2.64	1.17	

Note: Standard Deviation refers to the sample standard deviation of dissatisfaction scores and not the standard error of the mean.



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But in one important sense Indian local elections are not fully democratic, making local accountability problematic.

Lack of Inner-party democracy □ Choice of candidates and election issues are not Local

Namboodripad's idea of "partyless" panchayat elections, but will not make much difference if partisan politics prevails in general.

Political polarization, as in West Bengal, makes things worse, with opposition politicians usually not participating in the panchayat decisions as well as monitoring processes, as originally envisaged.

Local vs. Supra-Local Knowledge/Information

Sometimes there is a 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.

One of the reasons why backward districts' local governments cannot spend much of the meagre funds they receive is the dire lack of administrative competence.

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.

- 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.
- Kochar(2008) finds evidence from a large household survey dataset in India that the landed elite has an incentive to block investments in public education, as the latter tend to increase wages and depress farm profits.

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 political 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:
 - West Bengal, 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.). In West Bengal these

processes involving gram sabhas and gram sansads are often highly irregular, patchy or merely a ritual.

- 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).~~

Very little information available at the local level and regular auditing rare in West Bengal. Even the panchayat pradhans do not know how much is allocated where or what is the formulae used in fund allocation from above.

- 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.
 - Banerjee et al (2010) experimented with citizen report cards (evaluating legislator performance and characteristics) to slum residents in Delhi and found that the report cards raised the vote shares of the better-performing incumbents.

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 Schargrodsky (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)

Capture vs. Clientelism

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.

To empirically identify clientelism in any given context requires more detailed data than are typically available. But one can point to some indirect evidence, not just anecdotes.

- 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, help in personal emergencies, etc.) than by even large one-time benefits (like land reforms, or provision of houses and latrines).

- Golden (2011) examines disaggregated data on distribution losses in electricity in U.P. in North India over 2000-09 and finds losses rise in election years and their magnitude is correlated with the likelihood of the incumbent party getting re-elected reflecting vote-buying from farmers by incumbent politicians.

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 . Inequity of targeting *within* poor groups.

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.

Decentralization as Administrative Measure vs. as Political Process

- 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. In many Indian states MP's and MLA's hijack the process of devolution to panchayats and municipalities, so local democracy remains the weakest part of Indian democracy (even if the local elections are vigorous).
- 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 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).

Even after many recommendations of the 11th, 12th and 13th Finance Commissions, most state govts have not even standardized the accounting systems and data bases of panchayat institutions to provide the Commissions with a solid foundation for recommending devolution of funds. Some centrally sponsored schemes (like MGNREGS) are now channeling considerable sums of money to local projects, but the state govts are fighting every step of the way to keep the expenditure of such funds under their control. In Andhra Pradesh, otherwise one of the best-performing states in MGNREGS, the local panchayats are mostly bypassed by the state govt.

- 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.

Thus 20 years since the landmark constitutional amendments, effective decentralization still remains a distant goal in most parts of India.