

Reassessing Decentralization

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Introduction: Centralized versus Decentralized Governance

- 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 were delegated to a bureaucracy appointed by and answerable to the central government
- Decentralized (bottom-up) implementation: delegated instead to local governments officials elected by local citizens

Potential Advantages of Decentralized Governance

- *Information:* Community members are better informed about local conditions: can take quicker decisions to respond to local changes in need, availability etc.
- *Incentives:* Officials are more accountable to local citizens, who are better informed about their performance and can vote against dishonest, incompetent or non-responsive incumbents
- Empowerment of local citizens seen as a way to improve accountability and performance of relevant decision-makers
- Basis of support for decentralized governance: AP/SK irrigation management case study of Wade (1986), embraced 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... this years 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
- **Counter-arguments:**
 - *Capture by Local Elites:* made by Constitution designers in the US (James Madison, Alexander Hamilton) and India (B.R. Ambedkar) that local elites often exert disproportionate influence at local level, lack of oversight mechanisms such as media and judiciary at the local level

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 - *Political Clientelism:* local government incumbents manipulate benefit allocations to 'vote banks', while denying benefits to areas and citizens that support political opponents

Presentation Outline

- There have been a lot of policy reforms and research on decentralization reforms in developing countries over the past two decades (reviewed by Mansuri and Rao (2013) and Mookherjee (2015))
- I shall start with an overview of what we have learnt regarding problems of capture/corruption and clientelism, and resulting targeting distortions (misallocation)

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- I shall start with an overview of what we have learnt regarding problems of capture/corruption and clientelism, and resulting targeting distortions (misallocation)
- Growing awareness of these have motivated recent reform efforts, mostly involving some form of ‘recentralization’: reducing discretion provided to local government officials
- Second half of the lecture will provide a perspective on potential benefits, drawbacks, and wider implications of these recentralization initiatives

1A. Intra-Community Targeting Distortions: Elite Capture and Corruption

- Large empirical literature on elite capture, **within** local communities, 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

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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
- General pattern: capture tends to be higher in communities with greater poverty and 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)

1A. Elite Capture and Corruption: More Recent Evidence

- Literature since 2013 continues to provide micro-evidence of mis-targeting or underdevelopment resulting from elite capture in many different countries, using more detailed data and careful identification strategies
- Precise nature of elites vary across contexts:
 - *Tribal Elites*: Sierra Leone (Acemoglu-Reed-Robinson 2014), Malawi (Basurto-Dupas-Robinson 2019)
 - *Landed Elites*: India (Anderson et al 2015), Thailand (Vera Cossio 2021)
 - *Political Dynasties*: Pakistan (Malik-Mirza-Platteau 2021)
 - *Religious Elites*: Pakistan (Mehmood-Seror 2021)

1A. Elite Capture: Some Qualifications

- Important to note that elite capture problems do not arise universally
- Most papers show **variation in capture** across areas with differences in historical inequality
- Some contexts do not show evidence of much intra-community capture (e.g., Indonesia (Alatas et al 2012), West Bengal (Bardhan-Mookherjee 2006; Mookherjee-Nath 2020))

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- Some contexts do not show evidence of much intra-community capture (e.g., Indonesia (Alatas et al 2012), West Bengal (Bardhan-Mookherjee 2006; Mookherjee-Nath 2020))
- In contexts with capture, elite patrons often provide poor clients with insurance against temporary shocks (e.g., Malawi (Basurto-Dupas-Robinson 2019), Maharashtra (Anderson et al 2015))

1B. Intra-Community Targeting Distortions: Political Clientelism

- **Political clientelism** refers to targeting of benefits by local incumbents on partisan lines (favoring loyal supporters or swing voters) in exchange for their votes
- Growing evidence of clientelistic distortions which differ from capture/corruption in some important ways:
 - pro-poor bias

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 - pro-poor bias
 - bias in favor of private (esp short-term recurring) benefits versus public goods
 - horizontal (rather than vertical) inequity — e.g., across neighborhoods or sub-caste groups
 - harder to identify and measure
- Large literature in comparative politics; recent political economy literature relies more on quantitative evidence and careful identification strategy

1B. Evidence of Clientelistic Distortions

- Vote-buying in Philippines, negatively correlated with health service delivery across villages (Khemani 2015)
- Expansion of Bolsa Familia (a non-clientelistic program) increased public goods and political competition in Brazil (Frey 2019)

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- Monitoring and incentives of clientelistic party brokers in Mexico (Larreguy-Marshall-Querubin 2016) and West Bengal (Shenoy-Zimmerman 2021)

2. Inter-Community Allocations: Geographic Targeting

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- In particular, hierarchical budgeting processes determining program/fiscal grants **across** different local governments
- Decentralization reform in Bolivia in the 1990s featured formula-based grants, which reduced regional inequality and rural poverty (Faguet 2004)
- However, in many countries vertical fiscal grants are not formula-based, are instead decided by upper level government officials

Evidence of Inter-Community Distortions

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 - **Home-bias:**
 - disaster relief funds in Brazil (Azulai 2017)
 - water chlorine dispensers in Kenya (Hoffman et al 2017)

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 - **Home-bias:**
 - disaster relief funds in Brazil (Azulai 2017)
 - water chlorine dispensers in Kenya (Hoffman et al 2017)
 - **Partisan bias:** (targeting of loyal or swing voters; strong effects of political competition and vertical alignment)
 - municipal budgets in Roraima, Brazil (Finan-Mazzocco 2017)
 - drought relief in three southern India states (Tarquinio 2020)
 - employment programs in West Bengal (Bardhan et al 2020, Dey and Sen 2016, Mahadevan and Shenoy 2021)

3. Recentralization Reforms

- In this section, we review experience of some recent reforms intended to limit scope for capture, corruption and clientelistic distortions:
 - E-governance reforms to limit corruption
 - Alternative forms of Non-Political Decentralization
 - Formula-Based Grants to Local Governments
 - Proxy Means Test (PMT) Based Micro-Targeting

3A. E-Governance Based Monitoring/Verification

- Field experiments with large scale E-governance reforms in NREGA, India's employment program to reduce corruption:
 - **Biometric Identification Cards:** 18% reduction in ghost beneficiaries in Andhra Pradesh (Muralidharan et al 2016)
 - **Just-in-time Expenditure Invoicing:** 24% reduction in expenditures while program outcomes remained unaffected or improved in Bihar (Banerjee et al 2019)

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- Implementation problems: Bihar reform was reversed after seven months following intense lobbying by NREGA officials

3B. Alternative Forms of (Non-Political) Decentralization

- **Delegation to Local Communities:** some success stories (e.g., Uganda, Nepal) but extensive review of experience with CDD in Mansuri and Rao (2013) shows they are also prone to problems of elite capture, perhaps more so than elected local governments

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- **Contracting with Local Agents:** contracting with local community workers in Zambia (Ashraf-Bandiera-Jack 2014), private trader/lender agents versus local government appointed agents for a microcredit program in West Bengal (Maitra et al 2020) — these show promising results

3B. Alternative Forms of (Non-Political) Decentralization, contd.

- Less well-studied:
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 - **Private Providers:** grants to private schools in Pakistan (Andrabi et al 2020), PPPs (Barrera-Osorio et al 2017)
- I am not aware of many studies comparing NGOs or private provision with service provision by local governments: more research on these topics are urgently needed
- Entry of NGO or private sector alternatives often supplement government services, resulting in complex interactions and unintended side effects, e.g., poaching of workers in government clinics by NGO health clinics in Uganda (Deserranno-Nanshamba-Qian 2021)

3C. Formula-Based Grants

- Other alternative: reduce scope for discretion of elected officials
replace them with mandated formula-based allocations:
 - *Formula-Based Geographic Targeting*: Reduce discretion (or change incentives) of upper level officials over inter-community allocations
 - *Formula-Based Micro-Targeting*: PMT-based direct transfers of private transfers/benefits to households/individuals
- Latter reform is more drastic: formulae replace local discretion altogether, over both inter-community and inter-community allocation of private benefits

3C. Modifying Geo-Targeting Incentives of Upper-Level Officials

- **Finan-Mazzocco 2017** structurally estimate partisan bias of federal legislators representing Brazilian state of Roraima
- Legislators control allocation of funds to municipal governments
- Find substantial geographic misallocation relative to social planning optimum (25% welfare loss), driven by re-election concerns

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- Simulate effects of two reforms reducing partisan bias: approval voting and single-term limits
- Former has small effects
- Latter reform more effective in reducing misallocation, but welfare falls overall owing to higher diversion of funds by single-term incumbents

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- **Hoffman et al 2017** Kenya experiment: studies effects of restricting discretion of local councilors over location of water purification projects across different wards
- Significant reduction in manipulative effects of home bias
- But it also raised councilor demand for control over management (*suggesting an increase in corruption incentives, as in the Finan-Mazzocco study*)

3C. Formula-Based Grants to Local Governments in West Bengal

- West Bengal context: recall substantial partisan manipulation of LG program grants by block/district officials in response to changes in political competition (Bardhan et al 2020)

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- **Mookherjee-Nath 2020** compare pro-poor targeting of actual allocations, with simulated effect of village govt. grants determined by a need-based formula recommended by the WB State Finance Commission
- Formula incorporates demographic and survey-based measures of village need (population, remoteness, literacy, SC/ST proportion, food insecurity)

3C. Effects of Formula-Bound Grants to WB Local Governments, contd.

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- Key reasons:
 - partisan re-election incentives aligned with pro-poor targeting owing to greater responsiveness of poor voters to program grants
 - grant formula is based on coarse measures of village need
 - intra-village targeting still delegated to LGs (owing to lack of centralized/digitized land records), resulting in some leakages

4. PMT Formula-Based Micro-Targeting

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- Second alternative (drastic): essentially amounting to a total re-centralization of private transfer programs
- Similar to developed countries (social security/welfare state for centralized private benefits)
- However, it does not mean that LGs would be dismantled
- Instead, their role would be restricted to provision of local public goods (security, infrastructure, sanitation, public health and education)
- Would potentially eliminate much of the scope for local capture, corruption and clientelism, while increasing attention and resources of LGs to provision of public goods

4. PMT Formula-Based HH Transfers in Pakistan

- Nationwide overhaul of BISP (income support program) in Pakistan shows promising results (Haseeb-Vyborny 2021):
 - reduced favoritism towards recipients with closer geographic (same-village) and social (same-clan) connections with elected officials
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- No discussion of any political resistance by local elites

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- Combines change in nature of the program (vouchers vs. food) with method of distribution

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- Combines change in nature of the program (vouchers vs. food) with method of distribution
- Resulted in significant improvement of pro-poor targeting: targeted households received 45% more assistance, wealthier (ineligible) households 49% less likely to receive assistance, poverty fell 20% among poorest 15% at baseline
- No significant price effects, fall in administrative costs

5. Assessing PMT-Based MicroTargeting

- PMT formula- based micro-targeting would essentially transform welfare systems into a US-style social security program
- Relying on 'big data' -based entitlement formulae for households or individuals based on need-relevant information available to the government (age, education, residence, occupation, gender, SC/ST status, dependents, assets owned)
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- Instead of letting local officials decide
- Trade-off: local 'soft' but rich information of local elites or politically motivated officials **versus** 'hard' but coarse government data with reduced scope for local manipulation

5A. Potential Benefits of PMT-Based MicroTargeting

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- Enable benefits to be *portable*, i.e., not tied to specific location — benefitting temporary migrants and encouraging rural-urban migration (a problem illustrated vividly by Covid19 crisis)

5B. Potential Drawbacks of PMT-Based Micro Targeting

- Now turn to assess challenges and possible drawbacks:
 - Loss of Insurance
 - Administrative Challenges
 - Implications for Federalism and Wider Concerns

5B(i). Loss of Insurance against Temporary Shocks?

- PMT need assessments are based on household asset data, can fail to incorporate short term needs, or local heterogeneity in value of assets
- Perhaps local officials and elites are well-informed about these and incorporate them in decentralization, in ways that centralized PMT formulae would fail to incorporate?
- In that case, recentralization would generate a loss of insurance

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- In that case, recentralization would generate a loss of insurance
- *Raises the question:* to what extent do LG/C based allocations actually respond to temporary shocks (e.g., illness, harvests, covid19 intensity)?

5B(i). Insurance against Temporary Shocks: Indonesia Evidence

- In a study of 300 households in central Java, Trachtman-Permana-Sahadewo 2021 evaluate community based assessments of dynamic need (weekly pcc), relative to detailed household surveys of both weekly pcc and fixed assets
- They find:
 - low correlation (.16) between community and own-household assessments of weekly need
 - higher correlation (0.45) with own-assessments of asset value
 - this is despite families knowing each other well and having close social contacts

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 - this is despite families knowing each other well and having close social contacts
- Hence local communities do not seem to be well informed about temporary shocks

5B(i). Insurance against Temporary Shocks: Evidence from West Bengal and Malawi

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 - private benefits allocated by local governments between 1998-2011 did not respond to household shocks (death, illness, marriage, property disputes, legal problems)

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 - however, local party workers provided 'informal' help in response to such shocks
- These results suggest that recentralization would not amount to any loss of insurance in WB
- On the other hand, food allocations decided by local chief in Malawi were responsive to negative shocks such as cattle death or crop disease, and agricultural input allocations were sensitive to farmer productivity (Basurto-Dupas-Robinson 2019)

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- Indonesia and Pakistan experiments suggest these were not major (but the papers do not provide much detail)
- But experience in India suggests otherwise:
 - exclusion problems in Bihar resulting from attempts to integrate Aadhar cards with PDS, esp. for widows, elderly and manual workers (Muralidharan et al (2020), Dreze (2021))
 - half of all women in 2020 did not have Jan Dhan accounts; 23% had no bank account at all (Pande et al 2020)

5B(iii). Implications for Federalism, and Wider Concerns

- Recentralization would lower autonomy of state and regional governments in allocating aid — thus affecting center-state balance of power
- In India, new Central benefits (Swachh Bharat, Jan Dhan, Kisan Credit Cards, Ujjwala) resulted in vote share gains for BJP in 2019 Parliamentary Elections, while traditional programs disbursed by local governments (e.g., NREGA) benefitted regional parties (Deshpande, Tillin and Kailash (2019))

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- Possible scope for Central government to manipulate benefit formula opportunistically?
- Suggests need to devolve implementation of PMT based Micro-Targeting to regional/state governments — at the cost of creating problems of non-uniformity and limited portability of benefits across states