Decentralization Matters for the Poor

Author: Klaus Veigel, KC Governance
April 2012

Development Effectiveness of Decentralization

While it is a constant challenge to prove the development effectiveness of decentralization reform, recent evidence shows convincingly that progress in this area not only enhances democratic participation but also contributes to achieving the Millennium Development Goals and reduces income inequality.

Two decades ago, decentralization was at the heart of many ambitious government reforms in developing countries in such disparate cultural and economic contexts as Cambodia in Southeast Asia, Mali in the West African Sahel and Bolivia in the High Andes. All these countries had two important features in common, (1) the desire to break with their authoritarian past and embrace democratic governance and (2) the conviction that persistent poverty and social exclusion were the result of decades of mismanagement by highly centralized, unresponsive and often dysfunctional states. Bringing the government closer to the people and making it more accountable to them, it was argued, would advance both of these agendas and help diffuse social and political tensions.

In recent years, the enthusiasm for decentralization reforms has been giving way to skepticism. This change in perception was partially driven by new priorities in the international development agenda towards attaining tangible goals within a pre-set timetable (e.g., the "Millennium Development Goals", MDGs). The overly zealous application of the concept in unsuitable political contexts and unrealistic expectations as to what decentralization reform as a complex political process could accomplish within a short period of time also contributed to the generally critical assessment of decentralization reform in the early 2000s.

Taking a longer term perspective on decentralization reforms, by contrast, makes it possible to show the lasting effects in two key areas of human development: reduction of poverty and income inequality, as a recent academic study based on a large sample of countries suggested (Sepulveda and Martinez-Vazquez, 2010). These findings are consistent with the results of a survey conducted by KfW Entwicklungsbank on the progress of decentralization reform in countries where German Development Cooperation is active. The survey assesses progress to decentralization from (1) "least developed" to (4) "most advanced" along six dimensions (political, administrative and fiscal decentralization, stability of the system and local and top-down accountability). It builds on an earlier World Bank study (Ndegwa, 2002) in order to compare countries' performance over a full decade.

Decentralization with Strong Accountability Contributes to Achieving the MDGs

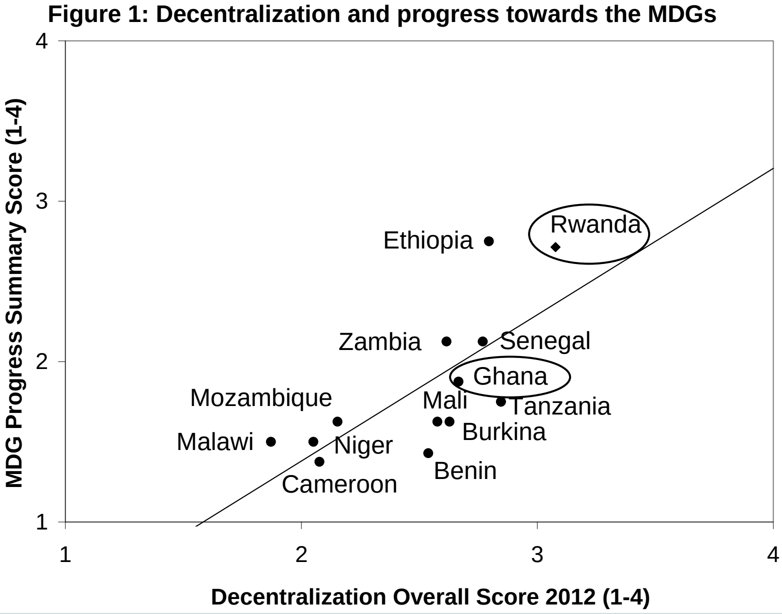
The assessment shows that countries with more advanced decentralization have generally made more progress towards the Millennium Development Goals (MDGs) as measured by a composite score ranging from 1 ("off track") to 4 ("achieved") than countries where decentralization reforms are at a less mature stage (see Figure 1).

It turns out that strong accountability in the partner country goes hand in hand with the effectiveness of decentralization reform in the long and in the short term. Countries with high "local accountability" in 2002, which measures different aspects of political participation on the local level, advanced most towards the MDGs over the subsequent decade. This underlines the importance of local ownership for the long-term success of the reform process. Looking at the 2012 data, the most successful countries were characterized by strong "top-down accountability". This suggests that a strong institutional framework, which ensures that local communities comply with legal rules and adhere to the national development strategy, is a pre-condition for decentralization to improve the level of service delivery. Alternatively, the findings could be interpreted as evidence that countries with strong state capacity are more likely to have advanced decentralization reform (see the cases of Ghana and Rwanda).

Successful Top-Down Accountability: The Cases of Ghana and Rwanda

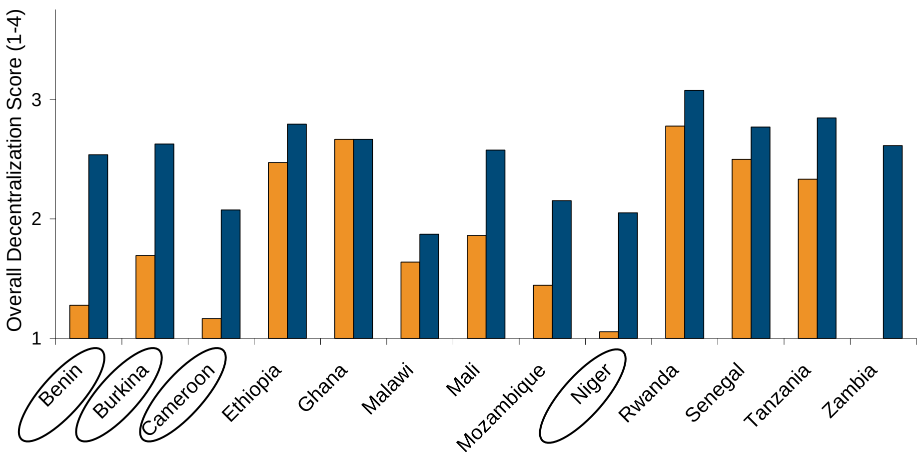
In Ghana, within the framework of the District Development Fund (DDF) all districts are evaluated on an annual basis using a set of transparent and predictable criteria. Disbursements of local investment funds are dependent on reaching certain minimum standards. The publication of the results of the assessments increases the political pressure on the administration of districts, which have failed to meet the goals. As a consequence, the performance of districts has improved considerably over the past three years. While only 36 per cent met the minimum requirements in 2008, almost 94 per cent did so in 2011.

Figure 1: Decentralization and progress towards the MDGs



In Rwanda, mayors and provincial governors are subject to annual performance contracts, which they sign with the President. These contracts set specific and measurable goals in four areas: economy, social welfare, justice and good governance. These goals are aggregated from the village level (*umudugudu*) up and can include, for example, the length of highway rehabilitated, tax revenue generated or the attainment of service delivery standards. Once a year, performance contracts are centrally evaluated and special recognition is given to top performers.

Figure 2: Decentralization Progress 2002 (orange) – 2012 (blue)



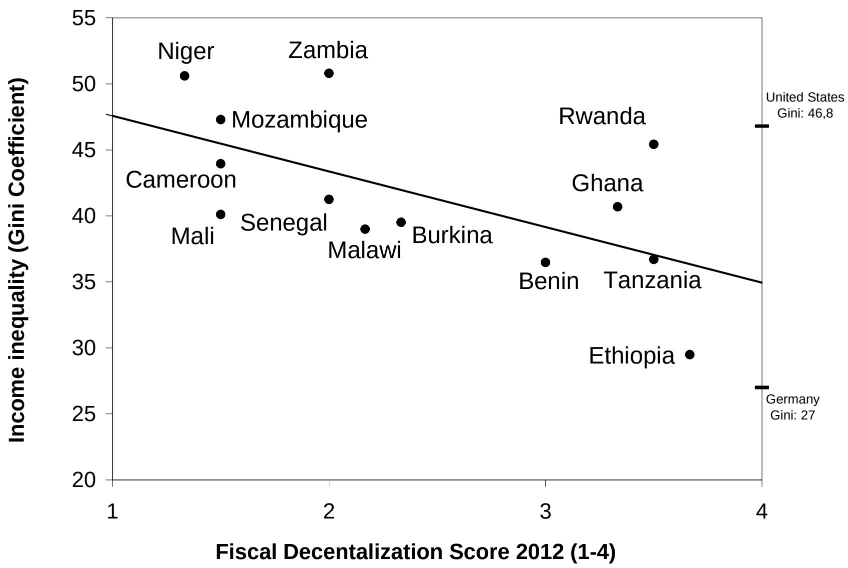
Fiscal Decentralization Contributes to the Reduction of Income Inequality

The survey also confirms the findings by Sepulveda and Martinez-Vazquez that more advanced fiscal decentralization is generally associated with lower income inequality (see Figure 3). The causal relationship likely runs in both directions: (1) poorer districts benefit disproportionately from a national fiscal transfer mechanism, which provides regular, predictable and adequate transfers from the central government to communities (see the case of FADeC in Benin), which reduces income inequality and (2) decentralization is easier to implement in more egalitarian societies.

Successful Fiscal Decentralization: The Case of FADeC in Benin

Since the process of decentralization started a decade ago, Benin has made exceptional strides in the area of fiscal decentralization. The most important building block was the establishment of a national fiscal transfer mechanism, Fonds d'Appui au Développement des Communes (FADeC) in 2008. FADeC provides predictable fiscal transfers to local communes based on a transparent and performance-oriented formula and receives most of its funding from the Government of Benin. It is being financially and technically supported by several international development partners (including Germany and Denmark).

Figure 3: Fiscal Decentralization and Income Inequality



Decentralization has progressed since 2002

Comparing the results of the survey conducted by the World Bank in 2002 with the results of the KfW survey a decade later highlights that much progress has been made in most countries where German Development Cooperation supports decentralization reform (see Figure 2). Progress was particularly impressive in Benin, Burkina Faso, Cameroon and Niger, where decentralization reform started from weak foundations. The best performers regarding MDGs, however, are countries, such as Ethiopia, Rwanda and Senegal, where decentralization reforms were already well advanced in 2002. This result cautions against unrealistic expectations of quick wins and shows that the benefits of decentralization reform only materialize with considerable delay.

The Road Ahead for Decentralization Support

While available evidence therefore strongly suggests that decentralization is a promising reform agenda that can contribute to achieving MDGs and lowering income inequality, decentralization support provided by development partners can – and should – be further improved. For one, as a recent study by the Development Partner Working Group on Decentralization and Local Governance (DeLoG, 2011) shows, decentralization support programs should be based on a better understanding of the political economy of the partner country and take the long gestation periods of major political reforms into consideration. At the same time, strengthening accountability – both local and top-down – should be an integral part of any decentralization engagement. While local accountability is an important precondition for local ownership of the reform agenda and the continued control of its implementation, a strong institutional framework is necessary to ensure that more participation translates into better service delivery.

Sources:

DeLoG (2011), Busan and Beyond: Localising Paris Principles for More Effective Support to Decentralisation and Local Governance Reforms.

Stephen N. Ndegwa (2002), „Decentralization in Africa: A stocktaking survey“, World Bank Working Paper.

C. Sepulveda und J. Martinez-Vazquez (2010), “The consequences of fiscal decentralization on poverty and income inequality”, Georgia State University Andrew Young School of Policy Studies International Studies Working Paper 10-2, Feb. 2010.