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Decentralization and governance: does decentralization improve public service delivery?

Decentralization holds great promise for improving the delivery of public services—but outcomes depend on its design and on the institutional arrangements governing its implementation.

Since the 1980s many developing countries have started to devolve central government functions to local jurisdictions. This shift has occurred partly in response to political pressures for local autonomy, but also to deliver public services more efficiently. It has been argued that decentralization improves governance and public service delivery by increasing:

- *Allocative efficiency*—through better matching of public services to local preferences.
- *Productive efficiency*—through increased accountability of local governments to citizens, fewer levels of bureaucracy, and better knowledge of local costs.

But decentralization has had mixed effects on public service delivery. Limited evidence suggests that the effectiveness of decentralized service delivery depends on the design of decentralization and on the institutional arrangements governing its implementation. Specifically, the argument that decentralization promotes allocative and productive efficiency assumes that the devolution of functions occurs within an institutional environment that provides political, administrative, and financial authority to local governments, along with effective channels of local accountability and central oversight. These channels include:

- Voice mechanisms for citizens to express their views to government bodies.
- Exit mechanisms for citizens to switch to nonpublic service providers or to move to other localities.
- Central government laws, rules, budget constraints, and oversight over local government operations, and channels for local governments to influence central government decisions concerning them.
- Public sector management arrangements that promote accountability—such as merit-based personnel policies and rules and arrangements promoting fiduciary accountability and constraining corruption.

A recent study by the University of Maryland analyzed the validity of this argument by assessing decentralized health and education services in the Philippines and Uganda. Using surveys of government officials, households, health facilities, and schools, the study explored whether local governments are aware of local preferences and whether they adjust public service delivery accordingly. The study also tested the extent to which local governments contain corruption, costs, and other waste. Thus the study analyzed whether allocative and productive efficiency are achieved, as stated by the theory. In addition, the study assessed

The Philippines and Uganda show the conditions that must be met for decentralization to improve public services

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The benefits of decentralized public services do not always materialize

whether channels of local accountability and oversight are effective in these countries, and the importance of different channels for decentralized service delivery.

Public service delivery has been partly decentralized

In the Philippines and Uganda the devolution of responsibilities for public service delivery has been a complex, ongoing process involving retention of some powers by the central government. Despite the election of local officials, both countries remain unitary states.

In the Philippines the 1991 Local Government Code has increased the responsibilities of all subnational governments: 77 provinces, 69 cities, 1,538 municipalities, and more than 40,000 communities. Most power is vested in provinces, cities, and municipalities. Most health spending has been devolved to subnational governments, though the central government retains responsibility for public goods like immunization and communicable disease control. In education, the central government is still responsible for budgeting and hiring, but local governments are responsible for operating and maintaining schools and are often involved in hiring teachers.

In Uganda the 1995 Constitution and the 1997 Local Government Act specify five levels of local government—district, county, subcounty, parish, and village—among which the 56 districts and 800 subcounties have the most political authority and resources. The delivery of primary health care and primary education are decentralized. In health, staffing decisions are made at the district level, but district funding comes largely from the center in the form of conditional grants with explicitly identified uses. In education, the curriculum and most funding for primary education flow from the center, but decisions about personnel, school construction, and operation and maintenance are made locally.

Does decentralization promote efficient public services?

The study found that decentralizing service delivery offers benefits, but these benefits have not always materialized.

Local officials perceive local demands but have limited authority to adjust services
Decentralization may increase allocative efficiency if local governments have the authority and willingness to adjust resource allocations and functions are devolved to a low enough level. In both the Philippines and Uganda, officials of lower-tier governments (municipal and subcounty, respectively) were more aware of local preferences than officials of higher-tier governments (province and district).

For example, the top household priority for incremental funds was water supply in Uganda, roads in the Philippines. While both subcounty and district officials were aware of these preferences in Uganda—subcounty officials more so—only municipal officials were aware of the demand in the Philippines. Philippine provincial officials knew little about local demand. In both countries, however, resource allocations reflected local preferences only weakly. This is partly due to the limited authority of local governments to adjust allocations.

Corruption is less pronounced at local than at national levels

Decentralization may increase productive efficiency by limiting the leakage of funds and other resources. In both countries corruption was seen as less pronounced at local levels than at higher levels (province or district and national). Still, corruption was perceived as substantial at all levels.

What impedes increased efficiency?

Several factors have kept decentralized service delivery from achieving its efficiency goals.

Local governments have limited authority
In both the Philippines and Uganda, central governments place tight constraints on the authority of local governments. For example, in Uganda local governments have limited authority to adjust resource allocations because most of their funding comes from the center in the form of conditional grants. This setup is considered necessary because of weak financial management at

local levels. Among other things, most health units, schools, and subcounty offices reported that there are no regular audits.

While these constraints limit the realization of allocative efficiency, central governments in both countries consider them necessary at the current stage of decentralization to ensure that funds are used properly. In addition, both central governments emphasize that decentralization is ongoing and gradual, and that further devolution of authority over resources needs to be preceded by increased accountability at local levels.

Citizen influence at the local level is hampered by limited information

Citizens in both countries have a number of ways to express their views to local governments. These include voting, local committees, and other civic action. Both countries have had high voter turnouts in elections, and the survey found that voting patterns and rationales are similar between local and national elections. Local committees were considered of limited use in Uganda, but in both countries civic action was common at the community level.

But limited information on local politics and events is constraining the effectiveness of these efforts. Citizens in both countries were less informed about local government than national government. While citizens in both countries rely on the media for information about national politics and corruption, they rely largely on community leaders (in Uganda) and local officials and personal contacts (in the Philippines) for such information at the local level. Media coverage of local politics and events is limited. This is noteworthy because the analysis confirms the importance of the media by indicating that better access to the media is associated with better education and health care.

Exit mechanisms have limited effects on public service delivery

Citizens in both countries can opt out of the government system in favor of nonpublic service providers or move to another location in search of better public services. Ugan-

dan households use private health care more often than do Philippine households. The quality of care is one of the main reasons for exit: private services were reported to be of much higher quality than those in public health units. But competition from the private sector has not induced significant improvements in public health care delivery, partly because many doctors in public health units also run private practices.

The argument that decentralization increases allocative efficiency presumes that citizens “vote with their feet”—that is, move to another jurisdiction if public services are unsatisfactory. It is argued that this threat makes governments more likely to satisfy the wishes of their citizens, to avoid risking the loss of tax revenue. But the study found that mobility across jurisdictions was rarely driven by public service delivery. Thus the threat of migration does not appear to discipline local governments in these two countries.

Local governments have weak capacity

Local governments suffer from severe capacity constraints—especially in Uganda—limiting the effectiveness of decentralized service delivery. Materials and equipment needed to carry out work were in short supply. In addition, a shortage of skilled staff and lack of training were hampering delivery. Capacity constraints did not appear to be as severe in the Philippines.

In both countries local governments reported following merit-based personnel policies. Merit and quality of services were rated as the main criteria for promotion. But there was evidence of corruption and favoritism in personnel management in both countries.

Decentralization can inhibit the delivery of some public goods

Evidence from the Philippines and Uganda highlights the need to preserve the delivery of public goods with interjurisdictional spillovers—such as immunization and communicable disease control—as vertical programs under central government control. In Uganda immunization rates have been falling. One reason for the fall is that vaccination services have been decentralized. Although the

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central government still delivers vaccines to health facilities, local governments have been made responsible for funding outreach programs to immunize children and pregnant women. But local governments do not always view immunization as a priority, and the study found that households ranked immunization as a low priority for additional government spending. As a result program funding and immunization rates have fallen.

Policy implications

Decentralization holds a lot of promise, but whether it improves public service delivery depends on the institutional arrangements governing its implementation. Several conditions must be met before the full benefits of decentralization can be reaped.

First, for decentralization to increase allocative and productive efficiency, local governments need to have the authority to respond to local demand as well as adequate mechanisms for accountability. Because granting authority without accountability can lead to corruption and lower productive efficiency, decentralization needs to be accompanied by reforms that increase the transparency and accountability of local government.

Second, functions need to be devolved to a low enough level of government for allocative efficiency to increase as a result of decentralization. Low-level governments are likely to be aware of local preferences and, if able to do so, are likely to adjust service delivery accordingly.

Third, citizens should have channels to communicate their preferences and get their voices heard in local governments. But the existence of such channels is not enough. To effectively influence public policies and oversee local governments, citizens need to have information about government policies and activities. The media play a crucial role in this area. In developing

countries radio is especially important for disseminating information about government. The media, however, tend to focus on national events and politics. In a decentralized environment, adequate coverage of local events and politics is also important.

Further reading

- Azfar, Omar, Satu Kahkonen, and Patrick Meagher. 2001. "Conditions for Effective Decentralized Governance: A Synthesis of Research Findings." University of Maryland, Center for Institutional Reform and the Informal Sector, College Park, Md.
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This note was written by Satu Kahkonen (Senior Economist, Macroeconomics 2 Technical Family, Africa Region) and Anthony Lanyi (Director of Economic Policy, Center for Institutional Reform and the Informal Sector, University of Maryland) based on Azfar, Kahkonen, and Meagher (2001). The broader study on decentralization and governance was supported by a grant from the World Bank's Netherlands Trust Fund.

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