

**The Role of Decentralisation/Devolution
in Improving Development Outcomes at the Local Level:
Review of the Literature and Selected Cases**

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Executive Summary

Public sector decentralisation has become a global phenomenon. Many countries pursue it with the stated intention(s) of improving service delivery, enhancing governance and accountability, increasing equity, and/or promoting a more stable state, among others. Despite the level of attention that decentralisation receives, our systematic practical knowledge about it is modest. In recent years efforts have intensified to better understand how decentralisation performs on the ground. The UK Department for International Development (DFID) plays a leading role in supporting decentralisation and is increasingly promoting the use of evidence in targeting development assistance. This review assesses what existing literature has to say about how decentralisation affects development outcomes, broadly defined.

Decentralisation and Development Outcomes

Decentralisation involves assigning public functions, including a general mandate to promote local well being, to local governments, along with systems and resources needed to support specific goals. Theory suggests that local governments empowered under an appropriate national enabling framework are subject to pressures—from constituents and competition with their peers—to use resources more efficiently and improve the execution of certain public functions. Some analysts, however, argue that decentralisation may worsen outcomes if local governments have inadequate capacity or face weak incentives to meet their obligations.

Over the years, scholars and practitioners have produced much research on decentralisation. This literature of interest here examines relationships between decentralisation and local development outcomes, in particular if, in what ways, to what extent, and through what mechanisms various determinants and elements of decentralisation affect outcomes. This review focuses on service delivery, human conditions/livelihoods, and governance outcomes.

The many studies considered vary in terms of specific issues examined, methodological approach, and level of focus—multiple countries, a single country, or certain localities in one or more countries. There is evidence to support both positive and negative decentralisation outcomes, but no grand generalisations beyond a very basic level emerge—as with much of the research on decentralisation, results depend on context. With that in mind, the review also examined country cases that pull key issues together in very specific contexts.

Country Experiences

Ethiopia is known as a prominent case of ethnic federalism. At the end of the civil conflict that ousted the ruling military regime in 1991, Ethiopia was divided into autonomous regional states largely based on ethnic criteria. A second phase of reform targeted sub-regional levels. Two decades later, Ethiopia appears highly decentralised in terms of its framework and how much government activity occurs locally. There are, however, concerns that weak capacity, limited local own-source revenues, and the effects of dominance by a strong political party may limit the extent to which some potential benefits of decentralisation can be achieved.

Indonesia is known for pursuing “big bang” decentralisation in the late 1990s. What had been a highly centralized state (albeit with strong features of deconcentration) rapidly devolved major functions and a large share of national revenues. Predictions of the collapse of service delivery from such rapid reform did not materialize, and to a certain extent decentralisation has worked. Yet notable problems with service delivery and governance have emerged, and there are evolving debates about how to improve local government performance.

The Philippines is among the more democratically decentralised countries in East Asia. Although its robust reform was motivated by a crisis, the details were negotiated and designed over time rather than hastily adopted. Considerable attention was given to improving governance and connecting with citizens. Some features of the intergovernmental system (especially fiscal) and the political context in which it operates, however, have hindered local government performance, and the country has had trouble adopting remedial reform.

Uganda has received much attention in the decentralisation literature as a developing country that embraced significant reform with unusual enthusiasm as part of a political transition process after a long period of national conflict. By the late 1990s, a strong constitutional and legal framework was in place, and Ugandan local governments rather quickly became among the most empowered and best financed in Africa. Positive results emerged, but weakly recognized fiscal, governance and capacity issues eventually took their toll. By the turn of the 21st century, decentralisation was, at least in terms of its original goals and design, in decline.

Conclusions and Lessons

Given various constraints, including diversity of analysis and experience, this review cannot make detailed general prescriptions for improving decentralisation outcomes, but it provides a few lessons from the literature on how to think about enhancing analysis and crafting more effective reform. First, *contextual analysis needs much deeper attention*. Some aspects of context explain why decentralisation has or is likely to be approached in a certain way. Others offer insight about specific features, sequencing, and additional dimensions of reform.

Second, not all decentralisation analysis can be comprehensive, but it should be *framed to recognize interdependencies among elements that must work together* if the reforms are to be successful. The common divide between technical and political aspects of decentralised governance is a prominent example of widespread failure on this front.

Third, it is essential to redress the imbalance in focus between design and implementation Where strategies for the latter exist, they are often mechanical, not executed as planned, or problematically fragmented across central agencies. Coordination of key actors is a profound challenge. Awareness of these difficult issues and country experiences can provide a basis for developing a more strategic approach to rolling out (and adapting) sustainable reform.

Fourth political economy needs to be more centrally incorporated into decentralisation analysis. Such dynamics are often lumped under the rubric of “political will” without recognising that even supporters may be primarily concerned with their own diverse agendas (sometimes hostile to true decentralisation). Forces threatening reform tend to be framed as constraints to be overcome through sound technical policy. This perspective has validity, but there is usually a need for pragmatic compromise. Political economy deserves more careful consideration in designing, implementing, assessing and modifying decentralisation reform.

Finally, development partners have an obligation to reflect and to act more critically and strategically in framing their decentralisation support. Formal coordination is not necessary or desirable on all fronts and need not be onerous, but problems caused by weak alignment and poor coordination can be consequential. At a minimum, development partners should be more careful to avoid feeding problematic country political economy dynamics and engaging in unproductive competition. There is much scope for stronger effort on this front.

Given differences in context and needs across countries and analysts, there is no single best approach to assessing the potential and actual impact of decentralisation on development outcomes. Yet the benefits of devoting more time and energy to this matter are obvious. *Whatever current or future empirical evidence may find, some form of decentralisation seems likely to persist in many countries*. Its fundamental drivers are political, even if normative objectives embodied in theory and development partner frameworks are valued or emerge as priorities over time. Equally important, although decentralisation is not universally desirable, there can generally be advantages to some form of it (broadly defined) in most contexts.

The pressing challenge for analysts and policy makers is how to help shape decentralisation so as to meet both political and more conventional development objectives as well as to establish an evolutionary balance between the roles of central and local actors in pursuing sustainable development outcomes. Much can be done to improve the body of evidence on decentralisation in general and in specific cases, but it is essential to frame future research well and to ensure that focusing on the assessment of outcomes does not neglect analysis of the processes and procedures needed for decentralisation reforms to be durably effective.

Table of Contents

Executive Summary	i
I. Introduction and Purpose	1
II. Approach and Methodology	2
III. Framing Decentralisation Outcomes in the Larger Landscape	2
i. Foundational Elements of Decentralisation	2
ii. Major Analytical and Practical Challenges.....	5
IV. General Literature Review on Decentralisation and Development Outcomes	9
i. Introductory Comments	9
ii. Empirical Literature on Outcomes: General Approaches and Patterns	11
iii. Empirical Literature: Key Development Outcomes	12
iv. Factors Underlying Decentralisation Performance	16
v. Brief Summary of Key Findings	19
V. Country Case Analyses	20
i. Ethiopia	20
ii. Indonesia.....	25
iii. Philippines	30
iv. Uganda.....	35
VI. Synthetic Notes on the General Literature Review and Country Cases	39
i. The Empirical Literature: Methods, Context and Results.....	39
ii. Understanding Context.....	40
iii. Integrating Elements of Reform	42
iv. Opening the Black Box of Implementation	42
v. Deconstructing the Political Economy	43
vi. Role of Development Partners	44
VII. Concluding Statement	45
Bibliography	48
Annexes	65
Annex 1 – Terms of Reference.....	65
Annex 2 - Approach and Methodology.....	70
Annex 3 - Empirical Literature: Key Development Outcomes	72
Annex 4 - Factors Underlying Decentralisation Performance	84

Figures and Tables

Figure 1: The Landscape of Decentralisation	4
Figure 2: Mapping Literature on Decentralisation and Development Outcomes	10
Table 1: Empirical Literature on Decentralisation and Development Outcomes	13
Table 2: Empirical Literature on Factors Underlying Decentralisation Performance ...	17
Table 3: Country Case Profiles.....	21
Table 4: Assessing Neglected Issues in Decentralisation: Case Comparisons.....	41

The Role of Decentralisation/Devolution in Improving Development Outcomes at the Local Level: Review of the Literature and Selected Cases

I. Introduction and Purpose

Public sector decentralisation has become a worldwide phenomenon. In recent decades, many countries have decentralised functions, typically with a combination of stated intention(s), such as to improve service delivery, enhance governance and accountability, increase equity in service and development outcomes, and/or promote a more stable state. Reform in a particular country reflects its context and the relative priority of desired objectives.

Although decentralisation receives much global attention, our systematic practical knowledge about it is limited.¹ Much early literature highlighted weak performance, and positive assessments tended to be based on anecdotal successes or rhetoric about expected gains. Despite limited empirical evidence of positive outcomes, many countries continue to pursue decentralisation, presumably in part because they perceive it to be politically beneficial. This underscores the pressing need to consider how to design and implement reform so as to reap potential benefits and limit potential problems.

In recent years better research has emerged in response to concerns about decentralisation performance, availability of improved data, and application of more robust methodologies. At the same time, decentralisation is complex, and its suitability varies across countries. Different actors—policymakers, academics in diverse disciplines, development partners—have specific interests and preferred approaches to the topic. Thus, despite advances, evidence about outcomes remains generally inconclusive and challenging to navigate. It is, nevertheless, worth taking stock of what existing literature has to offer.

The UK Department for International Development (DFID) has played a leading role in supporting decentralisation and local governance reform in developing countries. DFID is also increasingly promoting the use of evidence in developing, assessing and adjusting aid. This review brings together these two DFID priorities. The main task is to consider what existing literature has to say about how decentralisation affects development outcomes, broadly defined. Examples in the terms of reference (ToR) include poverty reduction, peace and political stability, fiscal improvements, participation, inclusion, voice, transparency, accountability, and service delivery. The ToR also call for review of a set of countries that meet criteria identified by the South Asia Research Hub, namely Ethiopia, Indonesia, the Philippines and Uganda. The full ToR are provided in Annex 1.

The purpose of the review and the scope of work outlined in the ToR are ambitious. The field is vast, experience is diverse, and literature is fragmented and on some key issues limited. It was necessary to examine a great deal of material that is uneven in approach, scope, geographic coverage, quality and findings, and, therefore, challenging to compare and extract lessons from. *One key conclusion is essentially the same as a key factor that motivated this work—systematic knowledge of decentralisation in practice is relatively modest. For the most part, feasible generalisations are broad, while more nuanced insights are relatively context specific.*

The next two sections respectively outline the approach and methodology and frame the review in the context of the broad decentralisation landscape and the challenges involved in conducting and interpreting research on decentralisation outcomes. This is followed by a selective summary review of general empirical literature on decentralisation outcomes, including forces underlying how reform unfolds. A section that summarizes the experiences of the four case countries is next, followed by a tentative synthetic assessment of the general and country case literature reviews. The paper closes with some concluding comments.

¹ Examples of reviews of decentralisation from various perspectives and for various regions include: Bird and Vaillancourt (1998), Litvack et. al. (1998), Burki et. al. (1999), Smoke (2001), Ahmad and Tanzi (2002), Ndegwa and Levy (2003), Wunsch and Olowu (2003), Shah et. al (2004), Ahmad et. al (2005), World Bank (2005), Bardhan and Mookherjee (2006), Smoke et. al. (2006), Cheema and Rondinelli (2007), Slack (2007), United Cities and Local Governments (2007, 2010), Crawford and Hartmann (2008), Ichimura and Bahl (2009), Connerley et. al. (2010), Martinez-Vazquez and Vaillancourt (2011), Faguet (2014), Dickovick and Wunsch (forthcoming).

II. Approach and Methodology

This is a review rather than an original conceptual or empirical paper, so the main task was to identify and assess existing literature. The first step was a broad canvassing of available materials (academic and practitioner) on decentralisation before deciding how to frame the report. The second step was to look at publications of and consult representatives of key development partners regarding their work and views. The third element was a review of empirical literature on decentralisation and development outcomes. The last step involved considering literature on the four case countries: Ethiopia, Indonesia, Philippines and Uganda. More detail on these steps is provided in Annex 2.

The large volume of general literature was used as background to set up the review. The empirical literature on decentralisation and development outcomes was culled for manageability and sorted into categories that seemed reasonable (see below) for present purposes. Methods and findings were reviewed and assessed for each. Given the volume and scope of the literature, the main paper only summarizes key observations, with more details in annexes. Finally, the cases were framed as much as possible to include issues outlined in the ToR—political/policy context; development outcomes; instruments/implementation strategy; modalities/steering mechanisms; links to other reforms; and lessons for development partners. A standard case outline was used.

III. Framing Decentralisation Outcomes in the Larger Landscape

*Decentralisation is traditionally understood as the assignment of public functions to subnational governments along with structures, systems, resources, and procedures that support implementing these functions to meet specific goals.*² There is an emerging broader view of decentralisation that focuses on *empowering autonomous local governments to meet a general mandate to provide for the welfare of their constituencies*, not just on their assumption of functions assigned by the centre. The related literature, however, is limited and it is not the focus of this paper.³

Decentralisation can occur in unitary systems in which the central government determines local powers, or in federal/quasi-federal systems, in which an intermediate government (e.g. a state) has powers to determine functions of lower tiers of government. In strong federal systems, states play a role in defining the relationship between themselves and the federal government. Studying decentralisation in federal systems is particularly challenging if there is considerable and consequential diversity in the roles of sub-state levels.

Decentralised service provision is expected to enhance the quality and efficiency of service provision through improved governance and resource allocation. Theory suggests that the proximity of local governments allows citizens more influence over local officials, promotes competition among local governments, reduces corruption compared to centralization, and improves accountability, among others. Some analysts, however, argue that decentralisation may worsen outcomes because local governments may not have the capacity or incentives to act as theory predicts.

Assessing outcomes associated with decentralisation is far from straightforward. Many relevant constraints are empirical (as discussed below), but there is no escaping the fact that *decentralisation—both conceptually and practically—is a highly complex and diverse phenomenon, even more so than most other public sector reforms*. Furthermore, decentralisation does not emerge or develop in a vacuum, and the need to contextualize reform poses additional challenges to definitive and generalisable assessment of how it shapes outcomes.

i. Foundational Elements of Decentralisation

There have been many attempts to characterize the essence of decentralisation. These have emerged from various academic disciplines and as policy documents produced by major international development actors.⁴ One simplified version of a decentralisation framework is provided in Figure 1.

² There is much literature on this topic, including many references cited in the previous footnote. Recent overviews include Boex and Yilmaz (2010) and Connerley et. al. (2010). Additional references are provided in later sections.

³ Romeo (2013) elaborates this perspective and reviews the literature on it.

⁴ Selected examples include UNCHS (2002), UNDP (2004), UNDESA (2005), UNCDF (2006), European Commission (2007), Newsum (2008), UNCHS (2008), USAID (2009), World Bank (2004, 2005, 2008).

There is much debate on decentralisation, and experts could take issue with this figure and the structure and terminology used. At the same time, the purpose here is not to provide a definitive, universally accepted framework, but to ground the literature review in a relatively systematic way. The figure outlines a set of interrelated system development outputs and processes, intermediate outcomes and primary outcomes that are often part of a decentralisation reform. It also highlights the importance of contextual factors that influence the shape of decentralisation in a particular country and a set of inputs mechanisms often used to support decentralisation.

a. Primary outcomes

Figure 1 shows multiple *primary outcomes* that are common decentralisation goals.⁵ These include improved service delivery (efficiency, equity, etc.), improved governance (deeper and more inclusive), poverty reduction, improved life/livelihoods, and increased stability/conflict reduction. Each outcome is complex, and they are related in ways that are intuitively logical but not always well documented. Service delivery, for example, can enhance governance and wellbeing and reduce conflict. Some relationships, however, such as the impact of service delivery on development, are more complex and likely to face constraints and take longer to achieve. Outcomes can be mutually reinforcing, but some may involve trade-offs, at least at certain points. For example, it may initially be easier to improve services by bypassing empowered local governments. Thus, if service delivery is pursued as a priority goal, it may be achieved at some initial cost to local governance development.

b. Intermediate outcomes

For primary outcomes to be realized, certain *intermediate outcomes* are needed. These may include a new or improved legal and fiscal framework, capacity (technical and managerial) development, better accountability (downward, upward, and horizontal) through elections and other means, and enhanced citizenship capacity. Intermediate outcomes can be individually pursued and targeted to attain specific primary outcomes (e.g. technical training for priority service delivery, awareness raising to improve citizen capacity to engage local governments, etc.). Ultimately, however, these outcomes interact with and depend on each other for effective decentralisation. For example, better local capacity without enhanced accountability channels need not produce better services that are more closely tailored to the preferences of local residents, an expected primary outcome of decentralisation. And as with primary outcomes, there can be some trade-offs among the intermediate outcomes.

c. System development outputs and processes

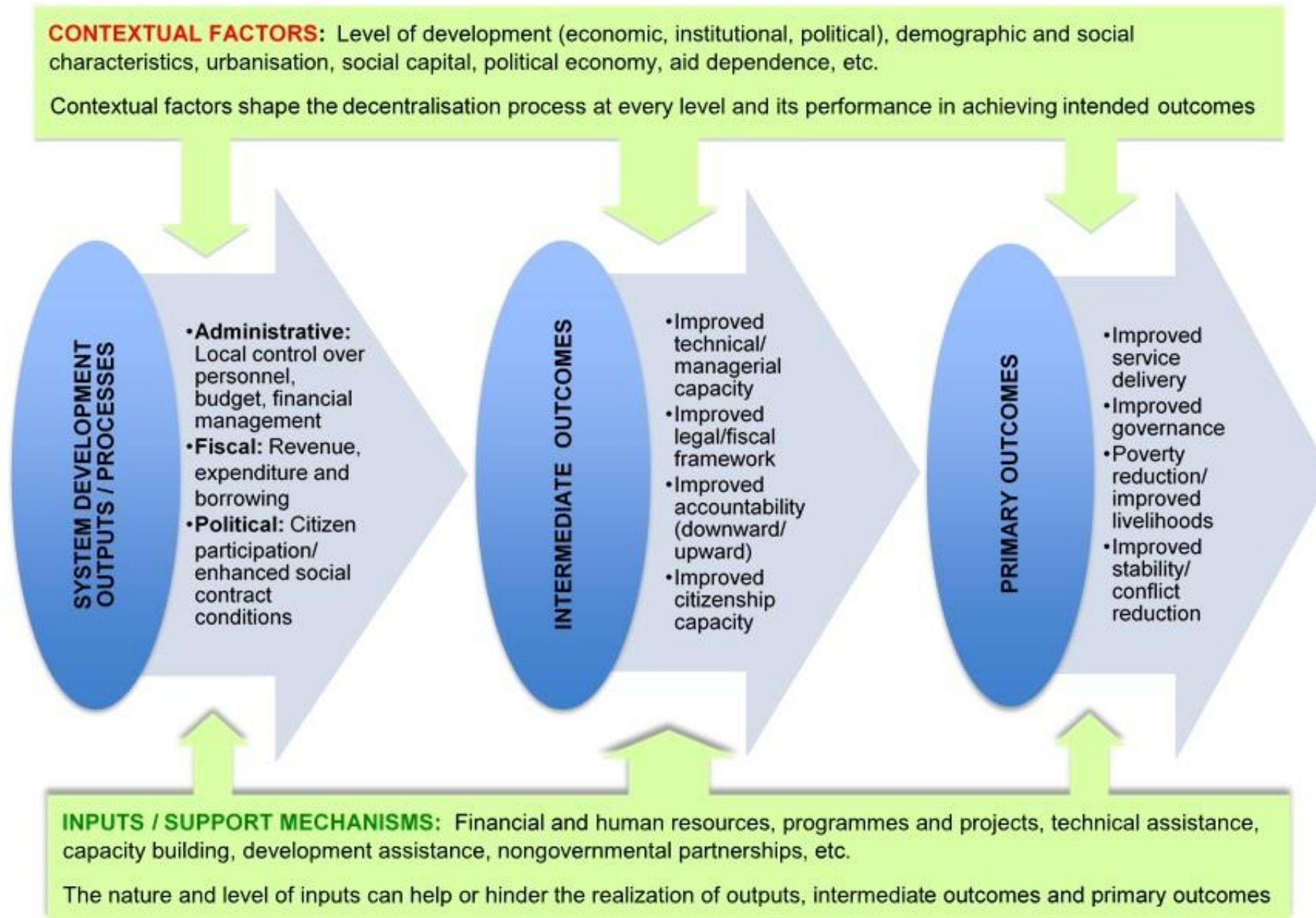
Attaining intermediate outcomes depends on pursuing *system development outputs and processes*. Examples include administrative reforms that create or improve systems for and local control over human resources, budgeting, and financial management; fiscal reforms that augment local expenditure and revenue powers and processes; and political reforms that enhance citizen engagement and social contract conditions. Again, the outputs and processes are interdependent. Inadequate fiscal decentralisation, for example, can undermine the ability of and incentives for local officials and elected representatives to perform. At the same time, fiscal powers are unlikely to be used well if not disciplined by administrative and political mechanisms. Similarly, even if local people actively participate in political processes when reforms are launched, they may become disillusioned and disengage from local democracy if they feel they receive insufficient benefits, a likely scenario when local officials have weak fiscal and administrative means to deliver services.

d. Contextual factors

These sets of system development outputs, intermediate outcomes and primary outcomes—and their interrelationships—do not tell the full story. Diverse *contextual factors* can heavily (in variable ways) influence the shape decentralisation takes and how it performs in a specific country. The size/nature of the economy, degree of institutional and political development, demographic and social characteristics, extent of social capital, level of urbanization, political economy factors, and aid dependence, among others, can be important.

⁵ Fairly recent reviews of the literature on decentralisation objectives and mechanisms is provided in Connerley et. al. (2010) and United Cities and Local Governments (2007 and 2010). A useful concise discussion is provided in Ribot et. al. (2010).

Figure 1: The Landscape of Decentralisation



Again, some relationships are straightforward. For example, all other things being equal, richer countries with more established institutions would be expected to be able to develop more effective decentralisation more rapidly than poorer countries with weak institutions. Similarly, aid dependent countries are more likely than more self-sufficient countries to be enticed into adopting donor-promoted reforms even if not well tailored to the national context. Other contextual factors, such as political economy, have more diverse—and typically harder to assess—influences on decentralisation and its outcomes (more below).

e. Inputs and support mechanisms

Finally, decentralisation is shaped by *inputs and support mechanisms* provided by government, nongovernment, and international actors. These include resources, technical assistance, capacity building, and partnerships. The nature and level of inputs can help or hinder the realization of outputs, intermediate outcomes and primary outcomes. Human resources, for example, can be well developed and deployed so as to support decentralisation, or the opposite may occur. Similarly, aid can promote effective local service delivery, or it can undermine development of institutions and capacity needed for sustainable good performance (e.g. by creating parallel systems). Ideally, inputs should reflect the contextual factors discussed above, and they should be adapted to changing conditions (more below).

ii . Major Analytical and Practical Challenges

Beyond the sheer complexity of decentralisation outputs and outcomes and the contextual factors and inputs that shape them, a number of specific realities and challenges may affect decentralisation outcomes and complicate our ability to analyse them. Many such factors were noted in the above review of contextual factors. More detail is provided here on particularly important factors that present major analytical challenges. Given space constraints, the treatment is relatively selective and concise, with some additional discussion/illustration in the empirical literature reviews below.

a. Institutional diversity and intergovernmental relations⁶

The diversity of decentralisation creates challenges for comparative analysis that are as daunting as those created by its complexity. Many countries have multiple subnational levels, and there are different mixes of decentralisation (devolution, deconcentration, delegation). One form may dominate, and the form may differ across levels, e.g. devolution at one level and deconcentration at another. In some cases, intermediate tiers (states, provinces, regions) are more powerful than lower tiers (municipalities, districts, etc.), while in other cases, the opposite is true. Dimensions of decentralisation may vary; for example, regions have more fiscal power but local governments have greater political decentralisation.

The focus of this review is the local level and devolution, but local governments are rarely the only or main service providers—there are often relationships among levels and/or joint responsibility for key public services. Thus, outcomes must be understood in terms of the institutional framework in a particular country and the formal relationships among differentially empowered levels of government that affect particular outcomes. Otherwise it may be difficult to explain the observed performance fully and interpret the factors shaping it.

b. Official and unofficial objectives: the underlying political economy⁷

The various formal objectives of decentralisation—those in government policy documents and promoted by international development partners—receive most of the

⁶ Diversity is a theme throughout the literature. Some work focuses on countries, including Bahl and Smoke (2003), Alm et. al. (2004), and Faguet (2012) or regions, including Burki et. al. (1999), World Bank (2001), Wunsch and Olowu (2003), World Bank (2005), and Dickovick and Wunsch (forthcoming). Others are cross regional, including Bird and Vaillancourt (1998), Ahmad and Tanzi (2002), Bardhan and Mookherjee (2006), Shah (2006), Smoke et. al. (2006), Connerley et. al. (2010), and Martinez-Vazquez and Vaillancourt (2011).

⁷ A recent synthetic review is Eaton, Kaiser and Smoke (2011). Other sources include Manor (1998), Eaton (2002), Wunsch and Olowu (2003), Eaton (2004), Ribot (2004), O'Neill (2005), Bardhan and Mookherjee (2006), Smoke et. al. (2006), Ahmad and Brosio (2008), Connerley et. al. (2010) and Hiskey (2010).

attention in the literature. These *stated objectives, such as service delivery and poverty reduction, however, may not be the primary concerns motivating reform*. A core issue is the conditions in which decentralisation began —e.g., as part of an on-going public sector reform in a stable state, to reflect a major political transition (South Africa), in response to major crisis (Indonesia), as an element of gradual economic transition (Vietnam) or as part of a state building strategy in a threatened or post-conflict state (Ethiopia). Whatever the situation, important political forces are at work, and this will influence the way decentralisation unfolds.

More generally, all actors involved in decentralisation (politicians and bureaucrats, national and subnational, etc.) face incentives of varying intensity to support or oppose reform (or particular components). These incentives are grounded not only in their views about service delivery, poverty reduction etc., but also in concerns about their electoral ambitions, support coalitions, career paths, security of tenure, etc. *Political economy shapes both how policy is defined in the first instance and how national actors end up behaving during implementation (supportively or obstructively), the evolving relationships (technical and political) among levels of government in the decentralisation process, and how reforms play out on the ground in often highly complex local multi-stakeholder environments*.

c. Relationship with other public sector reforms and external support

Attaining decentralisation objectives depends on many measures beyond the quality of decentralisation-specific policies and interventions. Two that receive insufficient attention are the relationship between decentralisation and other public sector reforms (civil service, financial management, sector/service delivery, etc.)⁸, and in more aid dependent countries, the nature and influence of development partner/donor support.⁹ There are many instances, for example, of public financial management, civil service, or sector reform efforts that (intentionally or inadvertently) undermine the legally prescribed role of local governments. Community driven development (CDD) and other efforts to strengthen civil society, while not strictly traditional public sector reforms, are also crucial for local governance, and how they are framed can affect the degree to which decentralisation reforms can meet their objectives.

Equally important, *even technically sound development partner programmes can be marginalized or manipulated by counterparts* if designers do not take into account political economy factors and fail to appropriately follow key Paris Declaration principles on aid effectiveness mutually agreed on by development partners and the countries they work in. Examples include creating parallel mechanisms rather than using/developing government systems, failing to coordinate their own related support programmes and competing with other development partners in ways that generate wasteful inconsistencies in country systems.

Inattention to relationships across elements of public sector reforms and donor programmes can result from some combination of institutional weaknesses, capacity limitations and poor coordination, but they are often rooted in the types of political economy considerations noted above—the incentives of the various (often unevenly empowered) actors involved to pursue different and perhaps incompatible objectives. This includes international development partners, who face specific incentives that shape their individual behaviour, their interactions with other development partners, and how they work with country counterparts.

It is essential to understand if there are important linkages among different public sector reforms and programmes when evaluating decentralisation, or outcomes may suffer and the true dynamics underlying performance may be missed. Strong (or weak) performance in local government service delivery, for example, may be influenced by larger civil service operations or sector policies and procedures, and it would be a misleading to say that local

⁸ The political economy of public sector reform in the context of decentralisation is discussed in Eaton, Kaiser and Smoke (2011). Decentralisation in the context of civil service and public financial management reform is respectively considered in Green (2005) and Fedelino and Smoke (2013).

⁹ Development partner support for decentralisation is specifically treated in Smoke (2000), Romeo (2003), Fritzen (2007), Smoke and Winters (2011), Donor Partner Working Group on Decentralisation (2011).

governments have improved or worsened outcomes independently when other policies have been as or more important than decentralisation in producing the observed results.

d. Decentralisation as a process of behavioural modification and learning¹⁰

Decentralisation is an often-lengthy process rather than a one-time policy action, but this fact is often insufficiently recognized in how reforms are defined and assessed. The temporal nature of reform can be particularly difficult for researchers and practitioners to navigate. A new intergovernmental system that meets the norms of decentralisation theories and the aspirations of national reformers is often a very long way from what exists on the ground and can rarely be implemented quickly. If there is weak consensus on the form and process of decentralisation because reform was rushed under political pressure, even key actors may poorly understand the nature of decentralisation, and there may have been insufficient time to define and develop the intermediate outputs necessary for success.

Decentralisation requires major changes in the behaviour of all concerned actors. Central governments must learn to support more autonomous local governments instead of control them as administrative actors. Local governments must become accustomed to interacting with constituents, and local technical staff must transition from relying on higher-level direction to working with elected councils. Citizens must become skilled at interacting with local governments and hold them accountable. These are daunting behavioural changes, and the less developed and more unstable a country is, the more difficult they are to achieve.

Even with consensus about reform and a robust legal framework, *provisions may be altered or ignored once implementation begins*. This can occur due to low central government capacity, resource constraints, or political economy dynamics. Formal transfer of functions and resources may set in motion bureaucratic political struggles, both between and within national agencies and across levels. Such struggles can affect implementation and how local governments perform. Local capacity and resource constraints, as well as political dynamics (party politics, elite capture, corruption, etc.) in diverse local jurisdictions, may also shape the use of new or reformed administrative, fiscal and political mechanisms on the ground.

Another implementation consideration is that *the different decentralisation aspects can vary in importance at different stages of the process*. Administrative, fiscal, and political decentralisation can be rolled out in different sequences on the basis of technical or politically motivated strategies. Sequencing does not always occur, but it is important to be aware if it is, why it was adopted, and how it may affect performance. A case can be made to appropriately (gradually) roll out local functions and related levels of autonomy (more below), but it is important to know if sequencing is part of a strategic approach to support reform or primarily reflects political and institutional dynamics, perhaps intended to undermine reform.

Finally, it is critical to recognize that *situations can change*. If an opposition party wins an election, if a crisis that motivated decentralisation is resolved, if a new crisis emerges, or if empirical evidence on local government performance emerges, attitudes on decentralisation can change, sometimes quickly. If this happens, policies and resources can be (formally or informally) modified in ways that promote or hinder the ability of local governments to deliver services or meet other decentralisation objectives effectively.

In short, the issues surrounding the timing and sequencing of decentralisation reforms are complex and can be difficult to unpack, but this is essential for analysis of performance. If poor outcomes are documented, however, it would be critical to determine whether this is a result of inherently undesirable reforms or missteps in the process. For example, were too many resources provided before sufficient local capacity was built? Was excessive autonomy given before adequate downward accountability had been developed?

¹⁰ Much of the more recent literature on decentralisation recognizes it as a process, a point perhaps initially well articulated in Litvack, Ahmad and Bird (1998). More recent literature that specifically focuses on sequencing and implementing decentralisation includes: Falletti (2005), Bahl and Martinez-Vazquez (2006), Ebel and Weist (2006), Shah and Thompson (2006), Smoke (2007), Bahl and Bird (2008), and Smoke (2010).

Did a powerful central actor regain control over local decision making in a sector after a major political change? These illustrative dynamics have different implications for policy and further reform options.

e. Measuring and interpreting variables and results

There has been *considerable debate in the literature about how to measure decentralisation and how easily its components can be separated*.¹¹ Fiscal decentralisation, for example, is often measured as the share of revenues and/or expenditures accounted for by local governments. This definition, however, ignores whether local governments have true autonomy over fiscal matters, a critical prerequisite to achieving benefits of decentralisation. It also fails to take into account basic local accountability channels (e.g. local elections), another important feature of a devolved system. The use of such simplistic measures for what is often the main explanatory variable in empirical analyses raises serious questions about the interpretation of statistical results and their implications for policy making.

It can also be *challenging to measure and interpret lessons from certain intermediate and primary outcomes of decentralisation*, as is evident from the preceding discussion. It is possible to measure whether certain basic systems and mechanisms (e.g. public financial management reform and participatory planning) have been adopted and whether service and revenue outcomes have improved, provided relevant data are available. Measuring more qualitative and expansively defined outcomes, such as improvements in governance, however, is more complex. The term governance is applied very broadly, ranging from the features of public sector systems and the behaviour of public sector actors (in terms, for example, of rules and processes for making decisions, transparency provisions, civic engagement mechanisms, etc.) to the behaviour and perceptions of citizens (democratic participation rates, citizen assessments of government credibility, actions and services, etc.)

Another key issue is how to frame and judge observed performance changes. Should this be done using an absolute standard or relative to the starting point in a particular case? Should performance be assessed on normative principles or in terms of key decentralisation objectives in a country at a particular point in time? For example, if establishing basic citizen trust in government is initially more fundamental than better services, should performance be compared to another country where better services is an immediate objective? This can be a particularly thorny issue for a development partner contemplating or assessing support if the partner is more firmly focused on service performance than the country being assisted and is under pressure to favour programmes that demonstrate concrete outcome improvements.

Attributing performance to decentralisation can be difficult, especially to move beyond association to causality. Certain expected decentralisation outcomes, such as poverty reduction, improved livelihoods and economic development, are affected by many factors, policies and initiatives—from broader macroeconomic conditions and policies to targeted programme interventions. Attribution is even more difficult if a ministry or donor is seeking to evaluate the impact of a specific decentralisation programme on a particular outcome.

Perhaps most critically, documenting whether decentralisation affects outcomes is not sufficient for good policy analysis. It is also essential to explain in more precise and nuanced terms which actors, structures and processes were critical, what they did, and how they were able to do it. If health services, for example, improve under decentralisation, analysts need to know the extent to which this is attributable to particular delivery modes, the behaviour of specific actors (governmental and nongovernmental) at one or more levels, specific conditions (capacity, political culture, etc.) in place or developed as intermediate outcomes, a specific sequence or timing of reforms, etc. *If such details are not adequately considered, analysts can derive incomplete or flawed conclusions and offer incorrect and potentially damaging policy prescriptions*.

¹¹ See, for example, Ebel and Yilmaz (2003), Schneider (2003a), Eaton and Schroeder (2010) and Boex (2011).

IV. General Literature Review on Decentralisation and Development Outcomes

i. Introductory Comments

Over the years, scholars and practitioners have produced an enormous quantity of research on decentralisation and development outcomes, but without clear and consistent results. The dominant issue is the diversity of research in terms of the countries covered, the methods used, and the scope, quality and findings of the studies. This is inevitable given the great variations in the context and nature of decentralisation efforts globally discussed above, as well as constraints on the types, quality and time frames of available information.

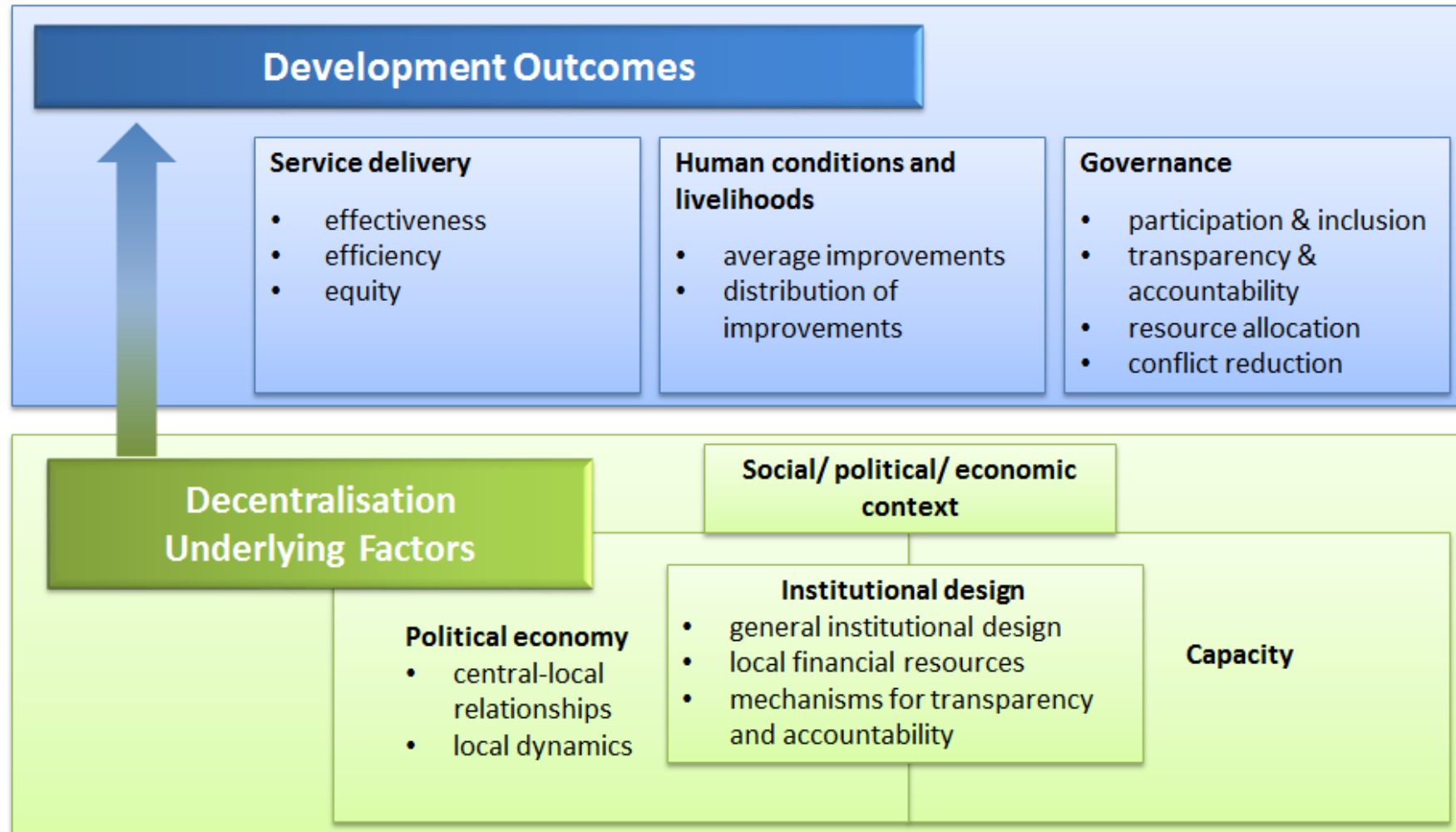
Research and evaluations of decentralisation are largely driven by specific incentives and concerns, e.g. academics rooted in a discipline or methodology, or development partners focused a specific service or aspect of governance. A few case studies or comparative papers have taken a more holistic/integrated perspective and employ multiple methods that generate a fuller picture of how decentralisation functions. *The general rule, however, is that the empirical literature is highly fragmented and incomplete in terms of providing an adequate sense of elements and processes that must work together for effective decentralisation.*

Another major concern for this review is that the bulk of development literature on service delivery, which has been growing as countries and development partners have sought to meet the Millennium Development Goals and document performance/value for money, is not specifically tied to decentralisation or intergovernmental relationships. By and large, this review does not include research on or evaluations of service delivery or other development outcomes if it did not specifically consider the role of local governments.

Finally, there are *trade-offs involved in designing research on decentralisation outcomes*. Considering decentralisation in broader terms and across countries is useful but likely to yield only general insights. The results of narrower analyses are likely to yield deeper insights but to be relevant mostly for specific places and issues. Focusing on processes and intermediate outcomes may say little about their effect on primary outcomes, while focusing on the latter may miss critical contributions of the former. For example, studies of citizen engagement or local financial management may not consider the quality of service outcomes associated with improved processes or systems, while a study documenting improved services may be unaware that the results depended on deeper citizen engagement or bypassed local systems and processes. *In short, even high quality research may leave out key issues of consequence for policy makers.* Thus, it is critical to be clear about the question(s) being addressed and the purpose for which the results of a study are going to be used—and to be honest about whether those questions and purposes are sufficient to inform policymakers.

Unfortunately, it is not possible to present available empirical literature neatly within the framework outlined in Figure 1, which is based largely on conceptual literature. Instead, *the untidy empirical literature is more sketchily divided into two blocks, as shown in Figure 2.* The first (section IV.iii) includes work on *development outcomes*, which roughly correspond to the “Primary Outcomes” in Figure 1, focusing on service delivery, human conditions/livelihoods, and governance (including conflict reduction). The second (section IV.iv) includes literature that focuses on examining *factors underlying decentralisation*, many of which are included under the “Intermediate Outcomes” and “System Development Outputs/Processes” areas of Figure 1 and incorporate some factors identified above as specific analytical challenges, including various contextual variables and political economy dynamics. These two blocks of literature are not mutually exclusive—some literature on primary outcomes discusses or tries to link intermediate outcomes/outputs to context to primary outcomes, and some research focused on assessing underlying factors considers how they affect specific outcomes. A few studies are discussed under both blocks. The literature could have been organized in other ways, but this approach allows the maze of diverse studies to be broadly summarized in a relatively accessible way.

Figure 2: Mapping Empirical Literature on Decentralisation and Development Outcomes



ii . Empirical Literature on Outcomes: General Approaches and Patterns

The empirical literature examines real-world relationships between decentralisation and development outcomes, in particular if, in what ways, to what extent, and through which mechanisms different aspects and determinants of decentralisation affect outcomes. The empirical literature on each topic can be classified by methodology and level of analysis. The studies vary in terms of the issues examined, use of quantitative or qualitative methods, and whether they focus on multiple countries, one country, or only certain local jurisdictions in one or more countries. The focus is on local governments unless otherwise indicated.

a. Basic approaches and methods

The empirical literature can be broadly classified into quantitative and qualitative. The former use statistical methods to estimate the effects of decentralisation on outcomes and ultimately seeking to establish causality. In recent years, researchers have made considerable progress producing results that are much more valid and robust than in the past. This reflects advances in methodology and data availability. A key qualification is that, with their focus on impact, quantitative studies usually do not deeply explore designs, processes, and political dynamics underlying their results--many factors and relationships outlined in Figure 1 largely remain a black box. Thus, a study may confirm that one service delivery approach is better than another, but without documenting how the results came about, there is only limited practical guidance on how to make reforms work and what supporting factors and framework conditions should be leveraged in a specific context. In some cases, a study may focus on a local service, but the extent to which local governments are involved may be unclear, raising questions about the relevance of the study for decentralisation. Definition of variables, as noted above, can also be a great challenge with quantitative research.

Qualitative studies, on the other hand, often focus on processes and seek to unpack the dynamics shaping the relationship between decentralisation and outcomes. These studies use field research to examine documents, collect data from observations and/or interview administrators, politicians, service beneficiaries, etc. Case studies are more likely to take an interdisciplinary perspective, illustrating relationships (or certain aspects thereof) among politics, governance and decentralisation. Compared to quantitative studies, however, it is often more difficult to assess qualitative methods and how they were applied, especially if used across diverse contexts. Case selection is often an issue. The focus on one or a few cases limits generalisability as those selected may not represent the overall experience, especially if selection is connected to the study question, i.e. outcomes are strong or weak (selection bias).

There have been efforts to conduct qualitative meta-analyses of diverse cases that synchronize research questions and methods. This approach requires a lot of coordination, but it can generate insights beyond idiosyncrasies of a specific context and can help to advance an action-oriented theory of implementation. A few studies use mixed (quantitative and qualitative) methods. This has potential to provide robust insights into both outcomes and their underlying processes, but it is difficult to design with synergistic integration of the methods. Some qualitative studies use statistics and quantitative analyses to frame their work, and a few quantitative studies draw on interviews or observations to help unpack their findings, but a strong, systematic mixed methods approach remains the exception.

b. Level of analysis

With respect to the level of analysis, empirical research can be categorized into macro-, meso-, and micro-level studies. For current purposes, macro refers to cross-country analyses. The majority are quantitative, but a few qualitative studies involve coordinated fieldwork efforts in several countries. Such studies claim the most generalisability, but frequently run into measurement or classification issues, and accounting for context in more than a superficial way is challenging. A majority of empirical work is conducted at the meso-level, providing analyses (quantitative or qualitative) of specific countries. While findings are rarely generalisable, they may offer insights into useful approaches and lessons for other

countries. Finally, some research is carried out at the micro-level, providing in-depth case studies of one or a few local governments, communities, service providers or other subjects. Most studies are qualitative, but a few quantitative studies involve detailed examination of factors determining development outcomes in localized settings. Such studies need not be generalisable for the case country, but they provide a depth of detail and insight into how the various aspects of decentralisation work together that macro- and meso-level studies cannot.

iii Empirical Literature: Key Development Outcomes

As indicated, the empirical literature on development outcomes is diverse in approach and results, and it is impossible to summarize it neatly or to generalize from it. *A brief sketch and selective examples of the literature and findings are presented here and summarised in Table 1, and more detail is provided in Annex 3.* The development outcomes review is divided into literature on service delivery, human conditions/livelihoods, and governance.

a. Service delivery

Much of the literature on decentralisation and development outcomes focuses on local public service delivery. It examines factors such as effectiveness, efficiency and equity. In some cases there are attempts to tie outcomes to selected contextual variables or reforms.

Effectiveness: Most empirical studies in this area assess the effectiveness of decentralised entities in providing public services, usually in terms of quantity or quality. The expectation is that empowered local governments will be able to provide more and better quality services to their constituency due to greater responsiveness and efficiency gains at the local level. *The landscape of empirical research in this area is diverse with studies conducted at all levels and using both quantitative and qualitative approaches.*

Quantitative studies at the macro level present mixed results. Kauneckis and Andersson (2009), for example, find large variation in natural resource management quality among municipalities in Brazil, Chile, Mexico and Brazil due to institutional design and national and local incentive structures. On the qualitative side, Robinson and Stiedl (2001) find that decentralisation does not improve rural transport in Nepal, Uganda and Zambia. *The majority of studies focus on the meso-level, with quantitative studies having more favourable results.* Aslam and Yilmaz (2011) find that service volume increases under Pakistan's decentralisation, but not uniformly. A qualitative example is Phommasack et al. (2005), who find negative impacts of health decentralisation in Lao PDR. Faguet (2012) uses mixed methods to show how interaction of business and civic groups determined the quality of local decision-making in Bolivia. *At the micro-level, studies are mainly qualitative with diverse results.* Jones et al. (2007), for example, find that villages in Andhra Pradesh (India) with active service committees enjoyed better health and education, but some problems emerged.

Overall, the picture of the role of decentralisation in service effectiveness is complex and results are mixed. Analysis is complicated by the variation in ideas about what is considered an effective service, and some services might simply be easier to provide effectively at the local level than others, as theory predicts. Such differences need to be taken into better account for research that compares services and locations.

Efficiency: A small set of literature focusing on the narrower concept of delivery efficiency, largely at meso- and micro-levels, also shows mixed results. Quantitative research by Asthana (2003 and 2013) finds decentralised water management in Madhya Pradesh and Chhattisharh (India) to be less efficient than at higher levels. Qualitative research by Kubal (2006) shows improved but uneven efficiency in education and health services in Chile. Channa and Faguet (2012) based on a quality-adjusted literature review observe that higher quality evidence finds improved technical efficiency across various public services. *Overall, however, this is an mixed set of studies that use different definitions of efficiency.*

Equity: An even smaller body of research, mostly at the meso-level, assesses decentralisation impacts on local service equity. *Most studies find that better-off segments of*

Table 1: Basic Summary of Empirical Literature on Decentralisation and Development Outcomes

Category of Outcome	Volume of Studies	Level of Analysis	Method	Results
<u>Service delivery</u>	Vast majority of outcome studies focus on service delivery	Studies at all levels—macro, meso, micro	Both qualitative and quantitative studies	Overall results are mixed
<i>Effectiveness</i>	Very large number of studies	Studies at all levels	Both quantitative and qualitative studies	Results at macro-level largely inconclusive; trend positive for quantitative and negative for qualitative at other levels.
<i>Efficiency</i>	Small number of studies	Most studies at macro and meso level, with a few at micro level	Mainly quantitative studies with a few qualitative	Most results are mixed with a few studies finding negative outcomes
<i>Equity</i>	Moderate number of studies – often examined in combination with effectiveness	Studies at all levels	Both quantitative and qualitative with a modest tendency towards the former	Most studies report mixed or negative results except for a few meso-level quantitative studies
<u>Human conditions and livelihoods</u>	Medium sized body of literature	Studies at all levels with slightly larger share at the macro and meso levels	Both quantitative and qualitative studies with more of the former	Results tend to be mixed, with some of them more positive
<i>Average improvements</i>	Fairly large number of studies on various specific conditions (education, immunization etc.)	Studies at all levels with a tendency towards macro and meso levels	Majority of studies are quantitative, with a few qualitative	Many studies, especially quantitative, report positive results; some mixed or negative results especially in qualitative studies
<i>Distribution of improvements</i>	Small number of studies	Studies mainly at meso level, with very few at other levels	Both quantitative and qualitative studies, with former focused on the meso level	Results are mixed and inconclusive
<u>Governance</u>	Large number of studies on governance outcomes	Majority of studies at the meso and micro level	Majority of studies are qualitative	Studies find mixed results with some tendency towards negative ones
<i>Participation and inclusion</i>	Fairly large number of studies	Majority of studies at the meso and micro level	Most studies are qualitative	Findings tend to be largely mixed or negative
<i>Transparency and accountability</i>	Small number of studies	Studies at all levels	Mainly qualitative studies with a few quantitative	Findings are inconclusive
<i>Resource allocation</i>	Small number of studies	Studies concentrate on meso and micro level	Almost exclusively quantitative studies	Results are mixed with only a few clear positive or negative findings
<i>Conflict reduction</i>	Very small number of studies	Studies at all levels	Studies mainly qualitative	Findings tend to be mixed or negative

the population benefit disproportionately from service improvements, while access and/or usage for the poor often deteriorates. On the quantitative side, De (2009) assesses inter- and intra-village access to decentralised water service in West Bengal (India). Residents of poorer villages and those of lower socio-economic status within villages have reduced access. Local case studies by Wilder and Romero Lankao (2006) find decentralisation provides only marginal improvements in equity of water access in Mexico. Geo-Jaja (2006) shows that decentralisation of primary education reduces quality and reinforces inequality in Nigeria.

b. Human conditions and livelihoods

A limited set of studies examine the relationship between decentralisation and changes in human conditions and livelihoods. The research here *focuses on average improvements of human conditions and livelihoods, such as higher levels of education, lower child mortality, higher rates of immunization, lower unemployment rates, or reduced environmental degradation.* Some studies also examine distributional aspects.

Average improvements: Most research employs quantitative approaches, mainly impact estimation techniques, at the meso- and macro-level. *The findings are largely positive or show mixed results.* On the macro-level, Lindaman and Thurmaier (2002) find that a 2-4 percent increase in fiscal decentralisation is associated with a one point increase in the Human Development Index. Khaleghian (2004) finds that more politically decentralised low-income countries have higher immunization rates, with the reverse effect in middle-income countries.

At the meso-level, multiple studies report positive associations. King and Oezler (2005) find improved student achievement in Nicaragua with more administrative autonomy. Asfaw et al. (2007) show that fiscal decentralisation has a negative effect on rural child mortality in India but less in states with weak political decentralisation. *Qualitative studies paint a less positive picture.* Crawford (2008) finds improved living conditions in Ghana resulted primarily from central government measures or market mechanisms. Mearns (2004) shows adverse effects of decentralisation on livelihoods and the environment in Mongolia.

The discrepancy between the findings of quantitative and qualitative studies cannot be definitively explained. It is likely a function of the diverse phenomena and countries being examined, but may also result from issues with research design, methodology and variable measurement in the quantitative research. Qualitative approaches risk misattribution of cause and effect, which can be difficult to sort out if there is insufficient explanation of methods.

Distribution of improvements: *A few studies consider the distribution of effects on human conditions and livelihoods.* While theory does not provide for a clear mechanism that ensures equitable distribution of benefits, there is an implicit assumption that equity will improve due to enhanced democratic conditions and local government responsiveness. This, of course, would be expected to depend on local political conditions and dynamics.

Most studies are conducted at the meso-level using quantitative methods. The findings suggest that positive effects are often unequally distributed, with most accruing to already better-off groups. Galiani et al. (2008), for example, find an overall positive effect of school decentralisation on educational quality in Argentina, but not for students in the poorest municipalities. Qualitative work raises similar concerns. Oyono (2005) finds that transfer of forest management powers to local communities in Cameroon resulted in internal conflict and social stratification through emergence of a new local elite. *In short, research on distributional effects of decentralisation on human conditions and livelihoods is limited. What is available, however, provides some indication that this may be a weak point in the materialization of the expected benefits of decentralisation and merits further investigation.*

c. Governance

Another body of research examines the role of decentralisation in influencing governance, including public participation and inclusion, transparency and accountability, democratization and democratic stability, and resource allocation. A number of studies focus only on governance, while others are broader. Some of the literature considers governance

outcomes as ends in themselves, others as intermediate outcomes. A few studies look at a range of governance outcomes, notably the Faguet (2012) mixed methods study of Bolivia.

Participation and inclusion: *Many studies examine how decentralisation affects participation and inclusion.* Devolving decision-making power is expected to generate more citizen engagement. A majority of studies use qualitative methods at meso- or micro-level, with generally discouraging results. Golooba-Mutebi (2005), for example, conducts ethnographic research on participation in the health sector in Uganda and finds a lack of a participatory political culture and citizen engagement. Gershberg et al. (2009) compare two community-based education reforms in Guatemala with differing levels of parental involvement. Schools allowing a greater parental role struggle more to achieve effective human resource management. Poteete and Ribot (2011) find that decentralization in Botswana and Senegal empowers some local actors and weakens others in an often evolving process.

Some qualitative micro-level studies report positive effects. Dauda (2004) for example finds that adoption of school fees in Jinja (Uganda) provides a strong incentive for parents to take school management responsibility and hold local government accountable. Jones et al. (2007) find that health and education user committees in Andhra Pradesh enabled a broad cross-section of villagers to participate, although institutional and human capacity challenges remain. *Quantitative studies are less prevalent and less encouraging.* At the meso-level, Agrawal and Gupta (2005) find that participatory forums for forest management in Nepal are captured by elites, limiting integration of poor and socially marginalized groups.

The variation in findings is not surprising if one accepts the premise that improved participation depend on context-specific factors that can vary by region, country or locality. Episodes of successful participation do exist, but they might be hidden among a host of less effective efforts. Overall, it seems that there has been insufficiently deep empirical analysis of cases of successful participation and their potential lessons for such initiatives elsewhere.

Transparency and accountability: A smaller set of empirical governance studies looks at the effect of decentralisation on local transparency and accountability. While the older theoretical literature implicitly assumed transparency and accountability will emerge once decision-making power was devolved, more recent conceptual work acknowledges that this cannot be taken for granted and requires specific institutional arrangements and policies.

Empirical studies employ both quantitative and qualitative methods at all levels. At the macro-level, Bratton (2012) uses Afrobarometer survey data to examine citizen perceptions of local government responsiveness in Sub-Saharan Africa. *The findings indicate great variability across countries,* partly due to variations in social characteristics, attitudes and political behaviours. De Mello and Barenstein (2001) analyse the relationship between fiscal decentralisation and governance indicators, such as voice and accountability, in 78 countries. They find a positive association between fiscal decentralisation and governance overall, but the specific relationship to voice and accountability is not significant.

At the meso- and micro-level, the research is mostly qualitative. De Grauwe et al. (2005) find that education accountability frameworks in Benin, Guinea, Mali and Senegal were often met with resistance from central and local administration. They do, however, report some successful initiatives. Asthana (2008) finds that corruption (understood to result from limited transparency and accountability), in water agencies in Madhya Pradesh and Chhattisharh (India) is higher in locally managed agencies than in state managed agencies. *In short, as with so much of the empirical research, the relationship between decentralisation and accountability can go either way, and the studies often do not clearly document why.*

Resource allocation: Some of the empirical literature also examines shifts in resource allocation under decentralisation. A core normative argument for decentralisation is that allowing decisions to be taken closer to the beneficiaries will result in improved resource allocation. Compared to the literature reviewed above on service delivery equity, the studies covered here mostly focus on the allocation of resources among uses rather than among users.

Most studies employ quantitative methods at the meso-level. Akin et al. (2005) find that under decentralisation Ugandan local governments spent less of the local health budget on public goods (e.g. sanitation and mosquito control) and more on curative care. Lewis (2005) shows that newly empowered Indonesian local governments respond to local needs, e.g. allocate more funds to poverty alleviation, but there may also be elite capture in the form of higher administrative spending. Faguet (2004) finds in Bolivia that municipal investment under decentralisation shifted towards human capital and social services, reportedly in line with need indicators. A few studies evaluate distributional effects of resource allocation shifts. Bardhan and Mookherjee (2006) find that poverty, land inequality, and low caste composition in West Bengal are associated with only marginal adverse effects on pro-poor within-village resource allocation, but that higher-level governments provide fewer resources to poorer villages. *In short, decentralisation can have important resource allocation effects that vary by context, but the larger development impact of these effects is not well understood.*

Conflict reduction: There is some general literature on decentralisation in post-conflict environments, but *very few studies explicitly address this issue systematically.* Proponents of decentralisation in post-conflict settings argue that decentralisation can contribute to a reduction of conflict by increasing opportunities for participation and inclusion and opening avenues for self-governance, the counter-argument is that decentralisation might lead to increased conflict through reinforcing regional inequalities, and a few instances of this were cited above.¹² Brancati (2006), for example in a study of 30 democracies finds that political decentralisation can dampen ethnic conflict and secessionisms directly by bringing government closer to the people, but it can also foment conflict indirectly by establishing the formation of regional parties that might drive a secessionist agenda. *Thus, it seems that decentralisation can alleviate or fuel conflict.*

iv Factors Underlying Decentralisation Performance

Many studies examining decentralisation and development look beyond documenting outcomes to establishing what specific factors affect them. A large number of diverse studies cover these issues to some extent, and it is only possible to provide an overall sense of them here. *The literature is summarized in Table 2 and additional detail is provided in Annex 4.* Qualitative studies tend to provide more detail on underlying factors given their stronger contextualization and process orientation, and it hard to quantify some important variables. Broadly speaking, determinants and aspects of decentralisation can be grouped into social/economic/political context, institutional design, political economy, and capacity issues.

a. Social/political/economic context

Many studies discuss social/political/economic context as a factor affecting the shape and form of decentralisation and its ability to improve development outcomes. Some qualitative studies argue that *without a participatory political culture, the mechanisms adopted for popular participation in local decision-making remain ineffective.* In a study of health decentralisation in Uganda, Golooba-Mutebi (2005) finds that offering opportunities for participation is not enough--a participatory culture needs to be fostered. Ntsebeza (2004) argues that decentralisation with elected representation is not even compatible with traditional institutions in South Africa. Blunt and Turner (2005) maintain that in post-conflict settings like Cambodia, lack of citizen trust in government hinders local participation.

Some literature suggests that *decentralisation requires a democratic framework to function properly.* Kubal (2006) studies education and health in Chile and finds that local service provision improved with Chile's democratic transition following the Pinochet regime, and a number of other studies have similar findings. Of course, service delivery can improve under less democratic regimes, such as Suharto in Indonesia and Moi in Kenya, at least for a time. Chile's experience may be partly explained by the economic priorities of Pinochet compared to the subsequent democratic regime.

¹² Examples of more general literature include: Fox (2007), Jackson and Scott (2008), Searle (2008).

Table 2: Summary of Empirical Literature on Factors Underlying Decentralisation Performance

Type of Factor	Volume of Studies	Level of Analysis	Method	Results
<u>Social/political/economic context</u>	Moderate number of studies explicitly consider context	Studies mainly at meso level, with a few macro and micro	Both quantitative and qualitative	Strongly suggest context matters, but limited hard evidence and sometimes inconclusive
<u>Institutional design</u>	Significant number of studies address institutional design in some way	The majority of the studies focus on the meso and micro levels	The majority of studies are qualitative with limited quantitative	Findings tend to confirm relevance of various institutional design issues
• <i>General institutional design</i>	Fairly large number of studies	Studies concentrate on meso and micro levels with few at the macro level	Qualitative dominates with a small number of quantitative	Results indicate importance of institutional design but generally context specific
• <i>Local financial resources</i>	Somewhat smaller number of studies	Studies at all levels with more concentration at meso level	Both quantitative and qualitative approaches	Results suggest lack of financial resources and high dependence on transfers as impediments to achieving outcomes
• <i>Mechanisms for transparency and accountability</i>	Moderate number of studies	Most studies at the meso and micro levels	Majority of studies are qualitative, few quantitative	Findings support the importance of effective mechanisms for transparency and accountability
<u>Political economy</u>	Small number of studies	Studies conducted at all levels, in particular meso	Mainly qualitative	Results illustrate the important but diverse/ambivalent role of political economy forces
• <i>Central-local relationships</i>	Small number of studies	Most studies are at the meso level with a few at the macro level	Mostly qualitative, fewer quantitative	Findings indicate that intergovernmental political economy dynamics can strongly influence development outcomes
• <i>Local dynamics</i>	Small number of studies	Majority of studies at meso and micro levels with a few at the macro level	Mostly qualitative, fewer quantitative	Results suggest that within-community dynamics can either hinder or support performance
<u>Capacity</u>	Moderate number of studies	Studies at all levels with a focus on meso and micro levels	Mostly qualitative, fewer quantitative	Studies identify lack of capacity as a central constraint on achieving development outcomes

Finally, some evidence points to the *role of a country's level of economic and institutional development in effective decentralisation*. Juetting et al. (2004) for example look at 19 case studies examining the link between decentralisation and poverty alleviation. In countries where the central government is unable to perform its basic functions due to weak institutions or political conflict, decentralisation hinders pro-poor service delivery.

b. Institutional design issues

A large number of studies identify institutional design as a main factor affecting the ability of decentralisation reform to deliver its promised outcomes. Here “institutional” can denote issues that range from the overall governmental framework to spaces of interaction between citizens and local governments. Some institutional issues reflected in the literature are discussed under the broad heading of general design, while others focus on specific aspects, e.g. financial resources and mechanisms for accountability and transparency.

General institutional design: *Much research identifies institutional design as one of the major bottlenecks to effective decentralisation.* Two types of design issues are identified. One relates performance to the types and extent of functions and being devolved. Mubyazi et al. (2004) find that devolution of financial, planning and managerial authority to district governments in the Tanzanian health sector is incomplete, with district plans reflecting national and donor priorities, only partial devolution of authority, and persistent central programmes operating outside district health budgets. These and other inconsistencies resulted in fragmentation and subpar performance of the local health system. Ryan (2004) argues that effective decentralisation in Costa Rica depends on the functions, finances and capacities transferred to local governments and the order/time frame in which this occurs.

The second type of design is the *structure of local-level institutions*. In a study of modern and traditional community institutions in decentralised natural resource management in Mali, Benjamin (2008) documents a need for negotiating and institutionalizing political space for self-governance. Booth (2010) provides various examples of (dys-)functional local institutions. Overlapping mandates between local stakeholders in Malawi result in unclear responsibilities and weak coordination. In Uganda, local administrators and politicians are unable to effectively monitor service provision by local health centres because health districts do not coincide geographically with local governments. *These and other incidences of institutional incoherence at the local level adversely affect decentralisation outcomes.*

Local financial resources: *Several studies point to local finances as a determinant of effective decentralisation.* Some research focuses on intergovernmental fiscal transfers, while other work puts more emphasis on own source revenues. For both sources, the main issues are insufficient assignment and/or collection. Geo-Jaja (2006) finds that a key factor in the negative influence of decentralisation on education equality in Nigeria is inadequate funding and the weak local government efforts to increase tax revenues. Dinar et al. (2007) examine determinants of effective decentralisation in water resource management and find that decentralisation success is positively associated with the local share of and local discretion over central government funding as well as the share of users paying tariffs. Robinson & Stiedl (2001) find negative effects from decentralisation of road administration in Nepal, Uganda and Zambia due to lack of local resources and heavy dependence on transfers.

Mechanisms for transparency and accountability: *A number of studies look specifically at institutional mechanisms for local transparency and accountability.* The vast majority focus on downward accountability to citizens—directly or indirectly through elected local councils. Upward accountability is rarely addressed or explicitly seen as supporting local autonomy (except for limited work on public financial management). De Grauwe et al. (2005) find weak accountability is a major obstacle to improving decentralised education in sub-Saharan Africa. Eckardt (2008) documents that greater political accountability of local governments results in improved services in Indonesia. Mohmand & Cheema (2007) show that decentralisation in Pakistan introduced new stakeholders and accountability between local politicians and their constituencies, although some clientelistic influences persisted.

c. Political economy issues

Political economy issues (discussed above) also affect decentralisation performance. Most of the empirical literature focuses on the politics of interest, such that stakeholders overtly or covertly use or manipulate institutions and governance structures to pursue their own political agenda or personal benefit.

Central-local relationships: A number of studies relate political economy issues in the relationship between the national/regional and local governments to the malfunctioning of decentralisation. Agrawal & Ribot (1999) show that central governments in South Asia and West Africa are often not genuinely interested in more local autonomy in forest management. Blunt & Turner (2005) find that faltering decentralisation in Cambodia results from central government interest in using decentralisation as a tool for consolidating party interests rather than improving services. Hernandez-Trillo and Jarillo-Rabling (2008) find discretionary allocation of transfers to local governments in Mexico based on voter distribution: areas with more voters and swing voters receive more funds, and poorest localities the least resources.

Local dynamics: Other research considers political economy dynamics within communities, i.e. between local administration, councils, NGOs, teachers, PTA members, etc., which affect local governance. Qualitative studies dominate. Narayana (2005) shows the insufficiency of efforts to countervail local elite capture in three Indian states through quotas for marginalized groups in local governments—mobilization through political parties and networks of NGOs and self-help groups are also key. Workman (2011) finds that reciprocal exchange relationships between local councils and interest-based groups in Sierra Leone strongly influence service quality. Poteete and Ribot (2011) examine how local actors gain and lose power under decentralisation in Botswana and Senegal in an evolutionary process.

d. Capacity issues

Finally, another set empirical literature identifies local capacity issues as a major bottleneck to improving development outcomes. Local governments require capacity to assume responsibilities, and local residents must be able to engage with local governments and hold them accountable. Kivumbi et al. (2004) find a lack of familiarity with decentralised financial management to be a major cause of ineffective resource management for malaria control in Uganda. Gomez (2008) shows that health was decentralised too quickly in Brazil, undermining local ability to manage services. Some states recentralized, prompting municipalities to seek support from municipal associations and international donors to increase their financial and technical capacity. A few qualitative studies at the meso- and micro-levels consider the capacity of local residents to engage with local governments and hold them accountable for outcomes. Jones et al. (2007) find that illiteracy and lack of information, particularly among vulnerable and marginalized groups, hinder inclusive and meaningful participation in service delivery for childhood poverty in Andhra Pradesh.

v Brief Summary of Key Findings

The empirical literature on decentralisation outcomes and the factors underlying them is large and diverse, and it is possible to provide only a selective sense of it here. A few points can be made. First, it is clear that the impact of decentralisation on is *mixed*. Second, there is evidence that many key issues outlined in the framework provided above are valid, but *no grand generalisations emerge*—as with much research on decentralisation, outcomes depend on political, institutional and socio-economic context, which vary and often interact in different ways. Third, while instances of good performance can be identified, *many studies reveal more challenges than achievements*. Finally, *many potentially critical relationships in how decentralisation works remain underexplored*. With these points in mind, it is useful to review selected country cases that pull a number of key issues together in specific contexts.

V. Country Case Analyses

As per the ToR, concise cases studies were prepared for four diverse countries: Ethiopia, Indonesia, the Philippines and Uganda. (Table 3 provides some basic information on these countries). Each case provides general background; reviews the underlying political economy context; summarizes decentralisation policy; outlines basic structures, actors and mechanisms; reviews available evidence on decentralisation outcomes; and summarizes key points and issues on the evolution of decentralisation and local government performance.

i Ethiopia

Ethiopia's decentralisation is a prominent case of what has come to be called ethnic federalism.¹³ The country has a diverse population, the second largest in Africa (currently estimated at 86 million). After the civil conflict that ousted the ruling military regime in 1991, Ethiopia was divided into autonomous regional states, the boundaries of which were based substantially on ethnic criteria. A second phase of decentralisation was initiated around a decade later when powers and resources were decentralised from regional to the woreda (district) level. Two decades into this process, Ethiopia appears to be a highly decentralised country in terms of its framework and how much government activity is conducted locally. There are, however, concerns that weak capacity and limited own-source revenues, as well as the dominance of a single political party, may limit the extent to which some potential benefits of decentralisation can be achieved.

a. Underlying political economy context/drivers of decentralisation

In 1991, the Ethiopian People's Revolutionary Democratic Front (EPRDF) overthrew the Derg military regime that had been ruling Ethiopia for almost two decades. EPRDF was a coalition of regional insurgent movements that was largely organized around ethnic groups. When the insurgency evolved into a political coalition, decentralisation and a multi-ethnic structure were seen as preconditions for transition to civilian rule and national unity. *The country was divided into largely ethnic-based regional states with powerful political, fiscal and administrative autonomy*; this regionalization and other strong constitutional guarantees for all of the nations (ethnicities) were enshrined into the new Constitution in 1995.

Aside from Eritrea, which achieved independence in 1993, the new federal structure has proven successful in maintaining national unity. Ethiopia, however, with one of the lowest GDP per capita worldwide, continued to face major constraints in delivering adequate services. *The country embarked on a second phase of decentralisation by transferring powers to district governments (woredas)*. Of course, there were clear political underpinnings—decentralisation to lower levels created an opportunity to extend the EPRDF influence deeper into society. Some analysts describe this as mobilization strategy based on mass dynamics and participation—not the type of local democracy valued by conventional norms.

b. Decentralisation policy¹⁴

The reform had two phases. The first took place with the countrywide creation in the early 1990's of national and regional governments whose jurisdictions were largely based on ethnicity. In the transition to civilian rule, federalism was chosen as the glue to hold the country together while the principle of ethnic self-determination was preserved within the system (Zimmermann-Steinhart and Bekele 2012). Although the regions have considerable autonomy, there is policy convergence on many fronts.

The second phase decentralised a range of service functions decentralised from state to district level (Zimmermann-Steinhart and Bekele 2012). The justification for the second phase was laid out in the 2000 Interim Poverty Reduction Strategy Paper. By 2002 full

¹³ General overviews of decentralisation in Ethiopia, including some historical perspective, include: Cohen (1995), Tegegne and Kassahun (2007), Dom and Lister (2010). Dickovick and Tegegne (2010).

¹⁴ The Ethiopian decentralisation policies and details of structures and responsibilities are summarized in Garcia and Rajkumar (2008).

Table 3: Country Case Profiles

	Pop 2011 (mil)	System Type	Political Competition	Subnational Focus	SN Levels of Government	Fiscal	Political	Autonomy
Ethiopia	84.7	Federal	Limited competition, one dominant party	Focus on regional states, limited powers later extended to lower levels, particularly woredas (districts)	<ul style="list-style-type: none"> - Regional States (9) and chartered cities (2) - Zones (68, mostly administrative) - Woredas (about 670 rural and 100 urban) - Kebeles (villages/wards, many/less autonomy) 	Major functions and 40% spending subnational with focus on regions; some own revenues, especially for regions; block transfers dominate	Councils elected at regional, woreda and kebele level (only a few zones also have elected councils).	Subnational governments, especially regional states and woredas, approve autonomous budgets and have some say in hiring decisions
Indonesia	242.3	Unitary	Multiparty competition after long period of single party dominance	Focus on second tier subnational (local) government; formerly strong provinces now play a more limited role	<ul style="list-style-type: none"> - Provinces (33) special regions (2), capital city (1) - Local: kota (cities) and kabupaten (districts, 505) - Desa (village, many/ minor role) 	Major functions and 35% spending subnational; revenue powers more limited; high dependence on mostly unconditional transfers	Assemblies elected at local and provincial levels; since 2005, direct election of provincial governors and local mayors	Local governments given major budgetary and hiring autonomy after initial reforms; some modest restrictions later adopted
Philippines	94.9	Unitary	Multiparty competition but political parties are relatively weak	Focus on multiple local government levels with urban areas dominant; provinces not highly empowered	<ul style="list-style-type: none"> - Provinces (79) - Cities (112) - Municipalities (1,496) - Barangays (villages, 41,944) 	Substantial functions and 25% spending local; some local revenues but significant dependence on mostly unconditional transfers	Elected bodies at all subnational levels; direct election of provincial governors, municipal mayors and <i>barangay</i> captains	Subnational governments prepare own budgets with higher-level legality review; national civil service rules allow local discretion
Uganda	34.5	Unitary	“Non-party” system replaced by multiparty system in 2006, but one party remains dominant	Focus on five-tier local government system with districts as the primary planning and budgeting unit; no provinces	<ul style="list-style-type: none"> -Capital City (1) -Districts/LC1 (112) -Counties/LC2 (162) + 22 municipalities & 5 city divisions -Sub-counties /LC3 (1147 + 64 municipal divisions & 165 town councils) -Parishes/wards/LC4 (7,771) Villages/LC5 (66,579) 	Major functions and 20% spending at local level, but limited local own-source revenues and conditional transfers increasingly dominant	Local elections at all levels except the lowest (village); participatory mechanisms but not deeply embraced	Limited budgetary autonomy due to conditional transfers; recent restrictions on hiring autonomy and central government has a district representative

government commitment to further decentralisation to the district level was well articulated in the government's Sustainable Development and Poverty Reduction Strategy Programme.

c. Basic structures, actors and mechanisms

The Ethiopian governance system includes five levels: federal, regional, zonal, woreda and kebele. Below the federal level are nine regions and two city administrations (Addis Ababa and Dire Dawa). These city administrations are structured differently but are considered equivalent to the regions. The regions are divided into zones, woredas/urban administrations, and kebeles (village areas, with an average population of 5,000).

The typical government structure includes an elected council, executive organ and independent judiciary. Zones do not have a legislature except in the SNNP region, and thus function as deconcentrated entities. In some cases, woredas have special status in the region and do not fall under a zone. Although kebeles have important functions, their limited resources means that they often operate like deconcentrated agents of woredas. In short, there are complex and nuanced variations in how intergovernmental relations play out.

The subnational administrative and political structure is expansive and complex. The regional councils are comprised of directly elected members representing each woreda. Councils also govern woredas, with members directly elected from each kebele. Regional bureaus, structured on a sector basis, execute administrative functions and a cabinet under a regional president performs the executive role. The same basic structure is repeated in the woredas. Kebeles do not have the same formal constitutional status and structures as regions and woredas, but they have elected councils and administrations with certain functions and revenues. Urban administrations have the same status as woredas, performing select regional functions (like woredas) and dedicated municipal functions. Smaller municipalities and towns fall under woredas, but they carry out only municipal functions (not regional functions).

Decentralisation devolved expenditure responsibilities for education, health, water and sanitation, among others, but actual functions are often not clearly distributed across tiers. Regions rely heavily on federal grants and collect various taxes (personal income, sales, corporate, property, and others) and other revenues. Woreda receive regional grants (80–90 percent of revenues) and retain shares of taxes they collect for regions. Urban administrations and municipalities have dedicated revenues. From the early days of federalism, regional governments have received major block grants based on population, development level and revenue effort. This mechanism was basically replicated for block grants to woredas. Special purpose grants are also available, but they have emerged at various times and do not follow common principles, so overall distribution across local governments is somewhat haphazard.

The House of Federation, which represents regions, acts for some mandates as a second legislative chamber and more generally focuses on intergovernmental relations. It is responsible for approving how federal resources are distributed among regions and has played a growing role in refining the regional block grant transfer formula. Beyond this, the issues on which it could be involved have been mostly handled by federal agencies. The most important is the Ministry of Finance and Economic Development, which has broad responsibility for economic development, fiscal policy, development planning, budgetary matters and external cooperation, among others. Other key actors include the Ministry of Federal Affairs, the Ministry of Revenues, and sector ministries. There are a number of major public sector reform programmes, such as the National Capacity Building Programme, and the Civil Service Reform Programme. Sub-regional governments are subject to regulation and oversight from regional ministries, and regional auditor generals conduct subnational audits.

Although well-designed vertical and horizontal accountability links are present in the decentralisation framework and there is a wide range of government promoted initiatives to support popular engagement, *de facto accountability is limited.* Senior regional officials are invariably senior leaders in the dominant party, and they rarely face external electoral opposition. Local officials are seen as more loyal to party leaders than to the populace, which can reduce incentives to determine and address local priority needs. The oversight functions

of the local councils are also compromised because of a structural conflict of interest, as woreda cabinet members are also council members (Yilmaz and Venugopal 2010).

Public scrutiny is not well developed but improving. The original framework makes no provision for members of civil society to represent their constituencies in legislative bodies (Tegegne and Kassahun 2004), but the 2008 reforms increased representation at woreda and kebele levels. Plans, budgets, and other documents are variably known to the public. Budgets are published in *Negarit Gazettas* (official journals/gazettes) but low literacy and weak awareness present obstacles to the ability of citizens to hold government accountable. In addition to limited transparency, lack of open media and a framework for civil society organisations hinder public engagement (Yilmaz and Venugopal, 2010). The second phase of decentralisation and efforts supported by development partners are improving civic awareness and social accountability, but much remains to be done (Lister et. al. 2012).

As already noted, Ethiopia has pursued a strategic approach to implementing decentralisation in two phases. The phases were not as rushed it might seem on paper. Woreda decentralisation was piloted in 2002, but it was not extended to weaker regions until 2009. In addition, some reform elements were strategically rolled out in a way that has been atypically harmonized with other reforms. No doubt the process was not always easy or smooth, but *Ethiopia's decentralisation seems to have been more strategic and less unencumbered by interministerial competition (or donor fragmentation) than often occurs.*

d. Decentralisation outcomes

Empirical research on decentralisation outcomes in Ethiopia is relatively limited, but there are some studies and reviews. Garcia & Rajkumar (2008) assess results of quantitative studies on service delivery conducted through surveys of beneficiaries about perceived service coverage and quality, review of per capita spending and other indicators (e.g. school attendance, graduation rates, etc). The body of work suggests that *devolution to the woredas has contributed to some improvements in basic services, particularly education.* The studies indicate that more remote, food insecure and pastoral districts showed the most significant improvements. Increases in spending, efforts to attain more equitable and targeted budgeting, and policy improvements (e.g. use of local languages) are deemed to have contributed to outcomes, but caution about attributing causal linkages is necessary.

Perhaps the most interesting element of this study is the *observed degree of variation among regions.* Positive effects are more evident in SNNPR and less in Oromiya. The discrepancy is attributed to use of different systems of fiscal transfers from the state to districts. SNNPR targeted differences in per capita expenditures on education and health across woredas. Thanks to greater per capita spending and better deployment of teachers, decentralisation narrowed the gap in outcomes between disadvantaged and better-off woredas.

More research is being conducted by the World Bank to focus more deeply on lower levels (World Bank 2013a). Preliminary findings from a study of six woredas provide some insight into how these newer local governments work. Their regular revenue sources (the formula-based block grants and shares of locally collected revenues) have generally been growing, although unevenly. These funds, however, are often exhausted on basic recurrent expenditures. If woredas do not meet revenue targets, they must cut expenditures. They also try to increase alternative revenues, particularly for development projects, e.g. by tapping a growing range of special purpose grants and local contributions (often linked to projects in kebele development plans, most notably in education). Growth of the latter is attributed to greater community ownership and engagement in design and use of local contributions.

On governance outcomes, the research found a strong and widespread perception of distance between the concerns of local councils and citizens. There are indications that citizens are unsure how to interact with councils, and they seem reluctant to make demands of councillors. Thus, the new accountability mechanisms, at least so far, are unlikely to create strong incentives for responsive service delivery. Data from a larger longitudinal dataset indicate that cross-sectoral participatory planning and prioritization processes remain weak,

and local priorities are often not accommodated.¹⁵ More positively, corruption is not widely reported, and community service delivery management structures seem effective. Garcia and Rajkumar (2008) found community involvement on the rise, especially through organisations like parent-teacher associations that assist in mobilization and help increase enrolment rates.

Work on effective aid and decentralisation in Ethiopia highlights one trend that stands in contrast to the apparent push towards expanding decentralised service delivery.¹⁶ When analysing the highly decentralised education sector and assessing the situation more broadly, the authors found that *the number of purpose-specific grant mechanisms and/or earmarked funds channelled to the regional and district levels has generally become increasingly more significant, somewhat restricting the space for local decision making and prioritization*. Donors wary of providing unconditional budget support are reported to be responsible for introducing most of these purpose-specific grant mechanisms.

e. The evolution of decentralisation and local government performance

Decentralisation in Ethiopia was motivated primarily by nation-preserving political concerns in the wake of a regime change after a serious conflict. As the reform took hold, it became evident that additional measures were needed to move reform beyond its original political purposes. Several interesting questions emerge. *First, what really motivated the second wave of reform? Second, how did Ethiopia avoid some of the worst common pitfalls of decentralisation, such as non-strategic reform and poor coordination? Since Ethiopia is a federal country, there is a related question—how did the country avoid key federalism challenges, i.e. reluctance of states to grant sub-state levels autonomous powers and the often great differences in sub-state systems? Third, given political and socioeconomic conditions, do genuine democratic decentralisation and its associated benefits seem to be within reach?*

On the first question, the literature suggests that if ethnic identity and self-determination first motivated decentralisation, *the aims of second phase (to woreda/district level) included improved service delivery, participatory governance, and economic development*. To some extent, these are undoubtedly genuine aspirations. In post-conflict environments, national governments may soon begin recognize the need for developmental role of the state, including service delivery. Such goals, of course, are serve political interests—for a ruling party to gain credibility and justify future electoral ambitions. At the same time, Ethiopia is a strong one party state, and the second reform phase also increasingly allowing the centralized partisan structure of the EPRDF to penetrate to the local level.¹⁷

On the second question, *Ethiopia seems to have been able to avoid common challenges because the federal state is powerful and dominated by a single party*. The state itself is also relatively consolidated (the combination of the finance and planning ministries was noted above) and has a number of government-wide public sector reform programmes. These factors seem to have tempered the usual high profile battles among central agencies with different views of decentralisation and limited competition among development partners to dominate preferred aspects of reform in aid dependent countries. On avoiding common pitfalls in federal states, analysts cite EPRDF party discipline as a reason for limited variation in regional policies despite significant autonomy. Yet autonomy can play a role, as evidenced in the above noted effects of differences in state transfers to woredas.

Regarding the third question, *the type of local democracy envisioned by devolution does not seem likely in the near future. Yet, there are signs that local people are slowly and tentatively taking an interest in how local governments spend resources, local corruption and patronage seem relatively limited, and woreda resources are increasing*. Although there may be no options for local voters to empower local councillors not approved by the ruling party to alter the status quo, there may be opportunities for local people to influence spending. Of course, better local services may further strengthen the EPRDF and dampen prospects for

¹⁵ This work, part of the Wellbeing and Ill-being Dynamics in Ethiopia (WIDE) initiative, is not yet public.

¹⁶ See, for example, Dom (2005) and Dom and Lister (2010).

¹⁷ Dickovick and Tegene (2010) provide an interesting discussion of motivations for continuing decentralisation.

political competition, although local decentralisation benefits could still be emerge. Vaughn (2011) suggests Ethiopia may be entering a “third phase of decentralisation, in which woreda level decentralisation morphs from deconcentration of responsibility for implementation to devolution of decision making in control and design of provision.”

In summary, Ethiopia has embarked on a substantial decentralisation that is widely credited with some positive effects. At the same time, this is occurring in a one party state that does not seem to value democratic reform as it is commonly understood. The powerful federal government and the discipline of its dominant party, however, are among the factors that have allowed Ethiopia to escape some of the messiness in decentralisation that is a natural consequence of greater pluralism. There is no indication that greater political pluralism is on the horizon. Yet with continued improvements in public sector systems and capacity and an increase in the interest and ability of local citizens to engage with local governments, some progress with local governance and service delivery seem within reach.

ii Indonesia

Indonesia is known globally for pursuing what is known as “*big bang*” *decentralisation* in the late 1990s.¹⁸ What had been a highly centralized state (albeit with strong features of deconcentration) rapidly devolved major functions and a large share of national revenues. Predictions of the collapse of service delivery did not materialize, and the system has produced some positive outcomes. At the same time, expectations have not been met, nontrivial problems have emerged, and there are evolving questions about the future.

a. Underlying political economy context/drivers of decentralisation¹⁹

As a large island country, Indonesia had an element of decentralisation during the Dutch colonial period. After independence, the county pursued centralization to build national unity. The strong central state provided a foundation for the development of the longstanding authoritarian Suharto regime. There were attempts to decentralise, particularly in the 1980s and 1990s, as part of larger attempts to pursue public sector reform. These efforts, however, were fairly centrally driven (often with donor support) and focused on deconcentrated fiscal and administrative powers, with no locally elected legislatures and considerable control of local governments from national ministries and provincial offices.

The Asian economic crisis in 1997 irreparably damaged the Suharto regime. The crisis illuminated the nature, depth and effects of centralized crony capitalism pursued by Suharto and his Golkar party and ultimately drove him from power. Governance and credibility concerns seem to have motivated his successors to consider decentralisation. Around the same time, East Timor province held a successful independence referendum and seceded. A few resource-rich provinces had long complained about unfair treatment, and there were fears in government and party circles that they would follow East Timor and try to leave the republic. *Sharing power emerged as a way to preserve the expansive, diverse and weakly unified state.* Decentralisation was part of the electoral strategy of the vice president, B. J. Habibie, who assumed the presidency when Suharto was forced out and wished to retain it. Reform, however, primarily empowered local governments because of concerns that strong provinces could fuel regional conflicts, federalism, or further separatist initiatives.

b. Decentralisation policy

*Indonesia adopted a relatively advanced decentralisation framework.*²⁰ Law 22 of 1999 established elected local governments, eliminated hierarchical relationships between local and higher levels, and defined substantial local government roles. The law devolves many functions, with defence, foreign affairs, justice, monetary policy, finance, police, development planning, and religion reserved for the centre. Local governments must provide

¹⁸ There has been much written about this. Some useful synthetic sources include: Alm, Martinez-Vazquez and Indrawati (2004), USAID (2006), Lamont and Imansyah (2012), and Decentralisation Support Facility (2012).

¹⁹ The political economy drivers are discussed in many readings, including Hofman and Kaiser (2004)

²⁰ The evolution of decentralisation policy is reviewed in Decentralisation Support Facility (2012).

health, education, environment and infrastructure services and may provide others not reserved for higher levels. With such strong decentralisation, subnational governments manage nearly a third of public expenditures and half of development expenditures. Regional people's assemblies are elected at both local and provincial levels every five years; since 2005, provincial governors and local mayors have been directly elected.

Law 25 of 1999 modified and consolidated the fiscal transfer system and outlined local revenues and borrowing rights. Law 34 (2000) modestly enhanced revenues. In 2004, Laws 32 and 33 updated Laws 22 and 25, including moderately weakening local budgeting and civil service control and limiting local revenue powers. Further codification of local revenues occurred in Law 28 of 2009, which provided a closed list of subnational taxes. Own source revenue power is considered weak relative to functional assignments. Subnational governments receive a share of selected central tax and non-tax revenues. Provinces have motor vehicles, fuel, ground water and cigarette taxes, but rates are regulated and portions must be shared with lower levels. Local governments exercise limited control only over few taxes and also collect user charges. Fragmented fiscal transfers were combined into the Dana Alokasi Umum (DAU), a revenue sharing fund capitalized by at least 26 percent of national domestic revenues and primarily allocated to local governments. The DAU formula includes expenditure needs and revenue capacity, although it creates problematic incentives (see below). Special purpose transfers (Dana Alokasi Khusus—DAK) were developed later and experienced a limited period of growth, but they remain relatively modest.

A number of legal provisions are not strictly about decentralisation, but they support the environment for local democratic engagement. *Constitutional revisions and an anti-corruption law guarantee freedom of information and transparency, although bureaucratic and capacity barriers are said to complicate the exercise of these civic rights.* Many NGOs have been established after a long period of state repression, but internal security provisions limit their development and civil society is still considered weak or unevenly developed.

c. Basic structures, actors and mechanisms

Indonesia has long had *multiple layers of subnational administration*, with the main levels being provinces and the second tier of equals, kota (cities) and kabupaten (districts). Below these were levels ranging from the kecamatan (subdistricts) to the desa (villages), but with limited roles and structures. Devolution formally empowered the higher local levels. There are now 34 provinces, five with special status—capital region (Jakarta), Aceh (additional autonomy/special Islamic status), Yogyakarta (traditional sultanate), and Papua and West Papua (limited special status)—and over 500 kota and kabupaten.

There are some *concerns about clarity in functional assignment* across levels. Perhaps more important is that the functions on which there is relative clarity, such as health, education, and infrastructure, have not been fully respected by the centre. *Many central departments spend part of their national budget shares for local government functions*, by one account averaging 13 percent of total subnational revenues from 2005-2010 (World Bank 2012) for certain purposes and probably considerably higher overall. This practice is inconsistent with decentralisation laws, although apparently not with sectoral laws.

At the national level, a number of agencies are involved. Considerable responsibility for decentralisation rests with the Ministry of Home Affairs (MOHA), with the Ministry of Finance (MOF), National Planning Agency (BAPPENAS), sectoral ministries, and the Supreme Audit Board, among others, having responsibilities in their area of mandate. There is a national training body and MOHA has responsibility to support local capacity. *Coordination across agencies has been challenging.* A ministerial-level Regional Autonomy Review Board (DPOD) was empowered to design policy but its coordination role has not been very effective. MOHA has the strongest official role. All key agencies serve on a permanent secretariat, but MOHA leadership seems not to be sufficiently respected, so coordination remains weak. The situation is complicated by challenges with development

partner coordination.²¹ The Decentralisation Support Facility (DSF) was set up to coordinate donor support to decentralisation and harmonize with government policy. DSF made only limited progress on these fronts, and it was closed in 2012. *The broad structure of decentralisation had politically strategic elements, such as the focus on local governments, but the centre never developed a coherent strategy for implementing the framework.*

d. Decentralisation outcomes

Few would question the fact that decentralisation has brought *many positive changes to Indonesia*.²² Reducing the heavy control of a highly centralized state in a country as diverse as Indonesia and empowering local democratic institutions, for example, have been widely praised. There have been advances in service delivery, human conditions and livelihoods, and governance. *Progress, however, has been mixed.* Expenditures have been increasing on most local services and there have been increases in outcomes (education, life expectancy, immunization rates, maternal mortality, access to sanitation and clean water, road quality, among others).²³ On this latter point, there is debate about certain services, with some evidence suggesting stagnation or modest declines.²⁴ Other analysts point to the unevenness of outcomes, and argue that other factors somewhat offset the positive news.²⁵ *Indonesia does fare poorly with key services compared to regional neighbours and more generally in international context, and in some cases there has been deterioration.* From this perspective, Indonesia ranks low on educational and health indicators, and in World Competitiveness rankings of infrastructure, Indonesia is next to last among 13 East Asian countries. Household access to and the quality of water services in are also among the lowest regionally.

A second factor is *concern about inefficiency*. A study of nearly 200 districts over the period 2002-2009 finds the relationship between higher local government spending in health, education, and infrastructure and the outcomes in those sectors to be statistically insignificant (World Bank 2012). A few other studies also raise concerns about inefficiency, particular that too great a share of the budget funds administration. Some studies indicate sector-specific concerns, e.g. Lewis and Pattinasarany (2010) find that schools could attain significantly improved education outcomes and also nontrivially decrease total spending. Despite concerns, there is also evidence that citizens feel reasonably satisfied, at least in some sectors, including health and education.²⁶ This is not uniform across services and geographic areas, but the results lean towards the positive side. Of course here can be respondent bias in such surveys, or Indonesians may simply continue to have low expectations for local government services.

Subnational revenues have risen dramatically since decentralisation (Smoke and Sugana 2012). Provinces are more fiscally independent, but *local governments raise a lower share of revenues than they did prior to reform* (in great part due to the large infusion of transfers). Since 2001 own-sources have been about 6-8 percent of total revenues (compared to 10-12 percent in the 1990s). Local governments once borrowed more extensively, largely through mechanisms controlled by the MOF and heavily capitalized by donors. Performance deteriorated, with poor repayment, and on-lending is now limited. Some analysts argue that the lack of a borrowing framework is a critical problem since local governments have large unmet infrastructure responsibilities (Lewis and Niazi 2013). There is also concern that some local governments under-spend resources at their disposal. Before decentralisation, sub-national governments held just over Rp. 7 trillion in reserves. From 2001 through 2006, this expanded to nearly Rp 70 trillion, growing at an annual rate of 45 percent. By 2009, they were Rp 108 trillion, about 3 percent of estimated GDP. Reserves are needed, but this level

²¹ See Winters (2010) for more detail.

²² Comprehensive assessments are provided in USAID (2006) and Decentralisation Support Facility (2012).

²³ Adrison et. al. (2012) have a generally positive perspective based on literature and statistical analysis.

²⁴ World Bank (2012) data on education and infrastructure, for example, appear to contradict Adrison et.al. (2012).

²⁵ Lewis (2010), Lewis and Smoke (2012) and World Bank (2012) offer a more measured assessment of service delivery progress and consider Indonesian outcomes in international perspective and service inefficiencies.

²⁶ Citizen satisfaction with services in Indonesia is empirically investigated and/or discussed, for example, in Kaiser, Pattinasarany and Schulze (2007); (Lewis & Pattinasarany, 2009); and Lewis (2010).

may raise concerns about the volume of idle funds given concerns about service delivery, although the problem is significant only in a limited number of areas.

There is some—scattered and uneven—evidence on governance-related outcomes. Skoufias et. al. (2011) find positive effects of elections and fiscal decentralisation on service delivery, with increases in both expenditures and own-source revenues. How to reconcile some findings, such as increases in local revenues, with other available information requires further investigation. Some dynamics uncovered—such as changes in expenditures brought about by newly elected non-incumbents and pre-election increases in spending on public works—are interesting and seem to signal increases in local government responsiveness to constituent needs. A number of other studies, both quantitative and qualitative, also point to capacity development and citizen empowerment gains. A few studies find that well-functioning processes (central and local) can improve service delivery (e.g. Eckardt 2008, Brinkerhoff and Wetterberg 2013); that devolution has enhanced participation (Kaiser et. al. 2007); and that it has opened up new economic opportunities for local citizens, although with some concentration of benefit (e.g. Resosudarno 2010 looks at the forestry sector).

Not surprisingly, problems are also identified, and some studies have mixed or more negative results. One study (Lewis 2005) found that post-decentralisation local government spending partly responds to needs of local citizens, but is also in part subject to elite capture. Kaiser et.al. (2007) found little evidence of citizen perceptions of elite capture, but concerns about corruption have persisted. Kristiansen and Pratikno (2006) find that transparency and accountability have declined in the education sector under decentralisation. This, of course, is just a sample of studies. They use different methods, target different locations and cover different time periods, so comparisons and definitive conclusions about outcomes are elusive.

Finally, it is worth noting the strong community development (CDD) efforts in Indonesia, which started with parallel, donor funded programmes, the most prominent of which was the Kecamatan Development Programme (KDP). The government ultimately took full responsibility for what is now the National Programme for Community Empowerment (PNPM). PNPM and its predecessors provide money to communities below the formal local government level to undertake local development activities, whether health, education, small-scale infrastructure or microcredit programmes. A structure was set up to support the planning, implementation and maintenance of these activities through village and inter-village committees. There is considerable evidence that KDP and PNPM provided community services and developed the capacity of community actors with low levels of corruption, and some evidence that it helped to raise incomes.²⁷

e. The evolution of decentralisation and local government performance

A critical question for understanding decentralisation in Indonesia is *why the system performed as well as it did in the wake of an unusually massive reform that some observers felt was bound to hurt service delivery*. A number seem particularly plausible. First, many devolved services were already being provided at that level under a deconcentrated model, and many of the systems and procedures to provide those services remained in place after the reform. Second, the staff who had been delivering services were largely retained; their status changed from central or provincial to local government employees. The level and quality of staffing varied across local governments, but the staff in a particular local government could continue to do essentially what they did before the reform. Third, the main fiscal transfer (DAU) was allocated horizontally through a formula initially dominated by a variable that measured a local government's share in the aggregate local wage bill. Local governments were thus funded to pay transferred staff members, and they were rewarded for keeping them (given the incentive to maximize their wage bill share to maximize transfers). Taking these factors together, it would be reasonable to argue that there was actually little reason to worry about a dramatic collapse of service delivery. It is not clear whether these measures were

²⁷ Examples of academic research include Olken (2007) and Olken et. al. (2013). A large number of evaluations and papers can be found on the websites of the World Bank's Indonesia office and the Ministry of Home Affairs.

strategically adopted as part of a transition process, calculated to constrain the new local assemblies, or conceived less deliberately, but many informed analysts suspect the latter.

As noted above, Indonesian decentralisation has had positive effects, but also weaknesses. Overall it is fair to say that *outcomes have not met expectations regarding the ability of local governments to play a stronger role in promoting development and improving citizen welfare*. How could this be happening in a country with reasonable capacity and very considerable resources that pursued strong reform—including robust political and fiscal decentralisation—so prominently? There are many debates over this question, but a number of factors—both symptoms and underlying causes—seem to be important.

First, as indicated above, *some legal mandates have not been properly implemented and supported, and the reform has not been well coordinated*. Operational details on some devolved functions have yet to be fully specified, local revenue autonomy is limited, the borrowing framework is nearly dysfunctional, and fragmented policies and support programmes stubbornly persist. Political economy factors (more below) play a large role here. Second, there is a *high dependency on transfers* in a country in which at least some local governments have substantially greater capacity to raise more resources. Weak local revenue generation is both a symptom of deeper dynamics (more below) and a factor contributing to performance problems. Third, there has been *limited genuine attention to the development of local accountability* (beyond technocratic means, e.g. for managing and reporting revenues and expenditures). As discussed earlier, adopting local elections is necessary but far from sufficient for local accountability. Staff in local governments may have continued to look to former parent ministries for direction, especially where councils are not seen as informed and competent. They were also accustomed to certain behaviours, some non-transparent and corrupt. In addition, elected councils had to learn to interact with constituents. The citizens, for their part, had to learn to hold local councils and service providers accountable. These relationships are at the core of a devolved system, and they do not happen automatically.

Fourth, as noted above, there is concern that the *centre continues to play too large a role in services that were devolved*. This may be partly due to the residual effects of central ministry influence on local staff, and such agencies often try to maintain control over resources post-decentralisation. They clearly have a role to play—upward accountability for service standards is still needed under decentralisation, and they can assist local governments with technical support and capacity building. But it is no surprise for national ministries to try to have a greater role than they should in a decentralised system. Fifth, PNPM, *the successful CDD programme mentioned above, despite its valuable achievements, raises concerns about local government dynamics*. PNPM is community based, and it is designed to meet needs of small localities. Better social capital and technical capacity at the community level could translate into more and improved citizen interactions with local governments, which are popularly elected and have the power to tax and spend. Being at a higher scale they can provide network services that connect communities to the larger economy and stimulate development. The PNPM, however, has to some extent been self-standing, and it is unclear how much learning has spilled over to citizen-local government relationships. Newer efforts were supposed to link PNPM and local governments, but such reforms are not progressing.

All of these factors have political economy underpinnings and implications for performance. Central agencies resist aspects of devolution that weaken their role. Some may do more to maintain their role than to support local governments. These agencies also have little incentive to work together and there is an element of interagency competition, resulting in fragmentation and policy incoherence. Development partners may reinforce these dynamics by engaging selectively with specific government actors. Even seemingly well-conceived efforts to improve coordination, such as the Decentralisation Support Facility, were captured by the very actors whose behaviour they were supposed to change. Equally important are local level dynamics. There do not seem to be strong demands for better services, so there is limited action by local governments to deal with service delivery deficiencies. Perhaps in some areas, citizens focus on the small-scale services provided by PNPM and do not engage

with local governments. Intergovernmental transfers are generous, and the DAU formula creates incentives to spend a large share on staffing. With weak pressure for better services, reserves build up in some areas and there is limited need for local governments to collect local revenues, an essential part of the local social compact. This scenario is somewhat simplified, and there is conflicting evidence, but the dynamics it illustrates are, to different extents and in varying ways, very real in Indonesia.

The way forward for Indonesia's decentralisation is not clear. There are *continually efforts to modify the framework, but they seem to be largely technical fixes that don't deal with underlying problems*. For example, the government devolved the property tax (previously a shared national tax) in a stated attempt to supplement own source revenues. There are already concerns that some local governments will opt not to use this tax. Local capacity may be a key constraint in many cases, but some local governments may not want to collect the tax if they face limited incentives to improve services and already get revenues they need from generous transfers. Recognizing the incentive problem, the government is also experimenting with *performance-based transfers*. Ultimately decentralisation requires an integrated approach to deal with fiscal systems, accountability challenges and capacity constraints that threaten implementation. This is hard to do without a strong sense of strategy and overarching coordination, which have been elusive in Indonesia.

iii Philippines

The Philippines was *one of the early decentralisers in East Asia, and it is among the more democratically decentralised countries in East Asia*.²⁸ Although its robust devolution was motivated by a crisis, details were negotiated and designed over time rather than hastily adopted. Considerable attention was given from the outset to improving governance and connecting with citizens—democracy was a prominent goal. Some features of the system and the context in which it operates, however, weaken the performance of local governments, and the country seems to have had trouble taking concrete steps towards further reform.

a. Underlying political economy context/drivers of decentralisation²⁹

The colonial experience of the Philippines created some foundation for modern governance. A democratic system was created at independence in 1946, and institutional and political structures were established. The infamous Ferdinand Marcos was twice elected president before declaring martial law in 1972. During the Marcos era, laws and presidential decrees intended to improve subnational administration further laid the groundwork for the system. Democratic decentralisation, however, was clearly not a goal of Marcos, who controlled and manipulated local governments. After Marcos was driven from power in 1986 by the People's Power revolution, there was consensus to re-establish democracy. A milestone was adoption of the 1987 constitution, which embodied decentralisation, local autonomy and participation. The *local government focus resulted from a resolve to re-establish government credibility, but there was also pressure for autonomy from local politicians* keen to limit space for the types of abuses practised by Marcos, including ad hoc transfer distribution, and decentralisation was seen as a way to deal with separatism efforts.

Soon after the overthrow of Marcos, his presidential successor, Corazon Aquino, initiated a *pilot decentralisation project* and created autonomous regions in Muslim Mindanao and the Cordilleras (the latter was later rescinded). It would be nearly five years, however, before Congress was able to pass the framework legislation (see below) that would formally enshrine local government as a core institution in the Philippines. There was much debate in the Congress about the provisions for decentralisation and the resulting framework was a compromise. Many observers seem to agree that the primary impetus for decentralisation was

²⁸ General background on decentralisation in the Philippines is provided in World Bank and Asian Development Bank (2005), World Bank (2005), Matsuda (2011)

²⁹ The political economy drivers of decentralisation are discussed in Rood (1998), Eaton (2002), Hutchcroft (2004 and 2010), and Matsuda (2011).

political. There was recognition of the need to improve performance to establish government credibility over time, but service delivery was not likely the dominant motivation.

b. Decentralisation policy

The post-Marcos constitution provides for local autonomy, but it was not until the passage of the Local Government Code (LGC) in 1991 that detail emerged on specific roles and rights of local governments. The LGC replaced an earlier law and merged and amended existing laws to create the new framework. *The system was designed to raise local government unit (LGU) autonomy and accountability through assigned functions and revenues.*³⁰ The LGC mandated generous national revenue sharing (in absolute terms, not necessarily relative to assigned functions). Substantial functions were devolved (primary or shared), including health, social services, environment, agriculture, public works, tourism, telecommunications, and housing. Local revenues include taxes on real property, public enterprise proceeds and local business turnover. Other sources include taxes on property transfer property, quarries and amusement, and as well as many types of fees and charges. There are central regulations, but local governments enjoy some autonomy. Cities may impose the full set of taxes, while provinces and municipalities have more limited access. Cities and provinces share revenues with the municipalities and *barangays*.

Central revenue sharing occurs mostly through intergovernmental transfers, but a few taxes, including a wealth composite (based on a set of revenues derived from wealth-related bases) and the tobacco excise tax are shared. The main transfer—Internal Revenue Allotment (IRA)—shares by formula 40 percent of internal revenue, with 23 percent of the total each to provinces and cities, 34 percent to municipalities, and 20 percent to *barangays*. The IRA accounts for the bulk of transfers, but there are modes for project and function specific grants, for example, the Municipal Development Fund and the National Calamity Fund. LGU borrowing is allowed but occurs primarily through dedicated mechanisms. The market is now dominated by a set of government financial institutions (essentially government-owned commercial banks), which have over time reduced the role of earlier agencies—the Municipal Development Fund, a public agency that finances development projects through loans and grants, and the Local Government Unit Guarantee Corporation, a private entity supported by the Development Bank of the Philippines. In recent years there have been efforts to broaden LGU access to capital finance. Some municipalities issue bonds or assume private loans, but incentives to do so are limited by the subsidized rates of government sources.

There are direct elections for local bodies at all subnational levels, with number of people on the local assembly dependent on level and population. Provincial governors, municipal mayors and *barangay* captains are directly elected. The LGC makes provisions for transparency and participation in local government affairs. The framework includes important autonomy and accountability provisions. Local governments prepare budgets (with legality review but not interference in priorities by the next higher level). There are national civil service regulations, but they provide for considerable local government discretion.

c. Basic structures, actors and mechanisms

The Philippines has *four levels of subnational government*, all of which are covered in the Local Government Code. These include provinces (79); cities (112); municipalities (1,496) and *barangays/villages* (41,944). The Autonomous Region of Muslim Mindanao is a group of largely Muslim provinces with a regional assembly and additional autonomy.

Even after 20 years of decentralisation, there is *still some ambiguity about functional assignments*. The LGC is fairly specific about many functions, but it allows central agencies to provide public works and infrastructure and augment local services where unavailable or inadequately provided. In addition, the Philippines has a programme known as Priority Development Assistance Funds (PDAF), which gives members of Congress discretionary

³⁰ World Bank (2005) and Manasan (2007) detail the functions and powers of local government units.

resources to finance priority projects in their constituencies. PDAF has been rising rapidly, and a large share finances infrastructure that is legally under the control of local governments.

The most important national agency is the Department of Interior and Local Government (DILG). DILG has primary responsibility for LGU oversight and support, but there are also other important agencies, including the Department of Finance, the Department of Budget and Management, the National Economic and Development Authority, and the Commission on Audit. The Local Government Academy (LGA), which is a DILG bureau, is the leading capacity building provider. *Coordination has been challenging.* An interministerial oversight committee is supposed to play this role, but many central activities noted above appear to be undertaken independently by individual ministries. Similarly, some development partners do work together, but coordination does not seem to be strong priority.

A notable innovation on the Philippines local government scene is the Galing Pook award.³¹ Initiated in 1993, this non-monetary award is given for distinguished achievements in improving local service delivery and enhancing public welfare. The award is portrayed as high profile and prestigious, although it is given to a limited number of LGUs, its incentive effects are not well documented, and there is some concern about how awardees are selected (how objective the process is). The approach, however, does suggest that competition for recognition may motivate local government performance without financial compensation.

After the passage of the LGC, the Philippines did make efforts to develop an implementation strategy. The blueprint for implementing reform was provided in the Master Plan for the Sustained Implementation of the 1991 Local Government Code, which outlined three phases of reform. The main goal of first phase (1992–93) was to formally execute the transfer of functions, which varied by type of LGU. The second phase (1994–96) was to allow LGUs time to adjust to new responsibilities. The third phase (1997 onward) was intended to deepen and institutionalize the system. *It is unclear how closely this strategy was followed (phases were imprecisely defined and do not seem very strategic) or if there was a formal evaluation.* It is known that approximately 70,000 employees were transferred from the centre to LGUs after the enactment of the LGC, so there was nontrivial sharing of available capacity.

d. Decentralisation outcomes

There seems to be a *general consensus that decentralisation has been a positive development for the Philippines.* The reform came at an important point for the country, and there have been development improvements on multiple fronts that are seen as being (but not proven to be) at least partly associated with the reform. At the same time, decentralisation has clearly not met expectations. Unfortunately the empirical evidence on decentralisation outcomes in the Philippines remains limited and the results are rather mixed.

Much of the literature has focused on problems with the way the system is structured, such as the mismatch between revenues and expenditures (including the importance of the IRA, problems with how it is allocated, and its effect on the distribution of service delivery); the weak link between local own source revenues and service delivery, the effects of unfunded mandates; the above-mentioned opportunities for other actors to infringe on local functions; and the limited transparency of non-IRA funding, among others. There is also concern expressed about spending efficiency, particularly that “general public services” (administration) is generally the most important category of local government expenditure.³²

Early assessments of impacts indicate increased spending on local services, enhanced local accountability, greater innovation, increased participation, and other benefits.³³ Some research documented innovative practices and factors underlying them—crisis, pro-active

³¹ For more information see: <http://www.galingpook.org/main/index.php/about-us>

³² These problems are documented, for example, in Manasan (2004), World Bank and Asian Development Bank (2005), Capuno (2007), and World Bank (2011).

³³ Rood (1998) discusses the early perceptions and evidence.

local officials and citizens, the need to cope with resource limitations, among others.³⁴ Much of this evidence, however, is based on cases and anecdotal evidence. More recent reviews lament the scarcity of formal analysis. Many indices (quantitative and qualitative) and survey instruments have been used, but they focus on selected aspects of performance and LGUs and are rarely replicated. Evidence on service delivery is very diverse and hard to systematically interpret. A number of studies review literature and conduct some empirical research of their own, but these analyses suffer from the above-noted inconsistencies. *The unsatisfying bottom line is that some outcomes have improved and others have not, and there is limited analysis of underlying factors.* A recent major review of service delivery summarized the situation in this way (World Bank 2011, p. 14): “After almost 20 years since the passage of the LGC... data on public services provided by LGUs have been scarce. On one hand, there have been numerous documented examples of innovative LGU practices to effectively deliver public services. On the other hand, assessments of the overall quality and extent of local service delivery vis-à-vis the mandates of the LGC and subsequent legal mandates have thus far been inconclusive.”

The majority of literature on governance outcomes paints a similar picture of modest gains tempered by considerable challenges. Azfar et al (2000), for example, found some reductions in perceptions of corruption, but there did not seem to be close connection between local governments and constituents--local officials were unable to predict local preferences accurately, and citizens had limited knowledge of local politics. Campos and Hellman (2005) also conclude that there were perceptions of reduced corruption and better services, but local officials faced risks of capture and clientelism that civil society was generally not able to act to offset. De Dios (2007) reviews evidence of pervasive patron-client relationships, through which local officials provide protection and favours in exchange for political support. Capuno (2007) argues (from his empirical analysis and review of other work) that persistence of patronage politics is suggested by the weak correlation between electoral outcomes and local performance. In a unique study Khemani (2013) uses statistical analysis of survey data to provide robust evidence that vote buying in poor areas is associated with lower provision of primary health services that benefit the poor. Specifically, where households report more vote buying, municipalities invest less in basic health services for mothers and children and a greater percentage of children are severely under-weight. In short, some literature calls into question the impact of local democracy on decentralisation outcomes in the Philippines.

e. The evolution of decentralisation and local government performance³⁵

Two questions on evolution of decentralisation performance in the Philippines stand out. The first is *why it took so long after the People Power movement ousted Marcos to produce a local government framework.* The second is *why—given the apparent commitment to decentralisation—performance and outcomes have been weaker than expected.* On the first point, the great political priority in the Philippines was to get rid of their authoritarian leader, and the country was not in danger of disintegration (like Indonesia). The new president also began a devolution pilot, so there was not urgency to advance formal reform, and some may have considered it prudent to await lessons from the pilot. Another key consideration is that although there was a strong broad consensus to support decentralisation, there was not a common understanding of it, so time was needed to negotiate the details of an enabling law that could pass both houses of Congress. National politicians are almost invariably reluctant to devolve much power. In this case there was less opposition in the Senate than the House of Representatives because the latter represent single member districts and may have been more concerned that empowered local governments could overshadow them.

There were also debates over specific provisions of the LGC, for example, the details of the IRA. The allocation of a lower share of IRA for provinces may have occurred partly because of perceived political threat of governors to members of Congress, and local mayors effectively lobbied for a larger share. Some members of Congress also managed to keep local

³⁴ For example, Brillantes (2003) reviews the factors underlying local government innovation.

³⁵ This discussion synthesizes points from Eaton (2003), Hutchcroft (2010) and Matsuda (2011).

revenue effort out of the IRA formula, perhaps fearing that substantial locally raised revenues might crowd out effects of the pork-barrel funds they wished to spend in their constituencies. Other powerful political interests also shaped key parameters of the LGC. Public sector unions and parent-teacher associations, for example, opposed making education a primarily local government function, and they succeeded in limiting the extent of its devolution. Another critical consideration underlying the long gestation period of the LGC seems to have been efforts in Congress to counterbalance the effects of decentralisation. Short-term electoral pressures and post-Marcos presidential politics may have pushed legislators to devolve fiscal authority despite risks that a large IRA would pose to their traditional roles, but part of the deal seems to have been congressional insistence on having access to constituency based resources. The Countrywide Development Fund, the predecessor of PDAF, was created in 1990, the year before the LGC was passed. Having access to these funds, which are widely known as “pork barrel” in the Philippines, allowed national politicians to be able to continue to channel and claim credit for large amounts of funding to their constituencies, somewhat blunting the political effect of the IRA funding to newly empowered local governments.

On the other question of weaker than expected decentralisation outcomes, several factors appear relevant. First, *the structural weaknesses of the intergovernmental fiscal system discussed above are likely to have a dampening effect on performance in some areas.* A key concern is the persistent role of other actors in services for which LGUs are officially responsible. LGUs may benefit from centrally executed projects, but they can offset incentives to raise local resources for public investments in devolved sectors. In addition, these projects may not be consistent with formal local priorities and plans, and there may be few incentives or resources for LGUs to operate and maintain them after construction. PDAF is the most important alternative service financing mechanisms and the subject of much controversy. Proponents argue that constituency based funding is a key development tool, particularly in rural areas neglected by national programmes. Opponents counter that they are a means for buying votes and for national politicians to collect bribes and kickbacks from contractors who implement funded projects. They also create incentives for local politicians in resource strapped jurisdictions to lobby Congress for funding. *Whether PDAF is on balance a positive force can be debated, but there is little question that it blurs lines of accountability and can complicate citizen interactions with the public sector, especially when members of Congress finance projects in sectors that are the legal responsibility of LGUs.*

Second, as discussed above, *political patronage, vote buying, elite capture and the like, remain endemic.* Such behaviour undermines local democracy, and the emerging evidence noted above raises concerns about how it affects service delivery and equity. A particular challenge in the Philippines is the existence of political dynasties through which particular families dominate political offices in specific jurisdictions. Recent evidence (at the national level) raises great concerns about this phenomenon (Mendoza et. al. 2012). Representatives from political dynasties account for 70 percent of jurisdiction-based legislators in Congress. On average, they possess higher net worth and win elections by larger margins compared to non-dynastic representatives. Their jurisdictions are associated with lower living standards and human development indices and greater deprivation.

Third, *civil society has grown stronger and there are robust transparency and accountability initiatives, but there does not seem to have been enough momentum to effect broad or dramatic change.* Without more concerted initiative from the demand side, which some local actors and development partners are increasingly promoting, local governments will face insufficient incentives to modify their behaviour. Finally, a factor in major urban areas is jurisdictional fragmentation. Many services should be provided area wide in metropolitan areas, but fragmentation impedes this. For example, the central government created the Metropolitan Manila Development Authority (MMDA) to coordinate metropolitan wide planning and service delivery among the 16 cities and one municipality in the Manila area. MMDA has faced great obstacles, however, in part because it is seen as a national agency (dating to the Marcos era), but also because it is financially dependent on the centre

and provides few incentives to induce individual mayors to work beyond their constituencies for the greater metropolitan good.³⁶

Many challenges outlined here are well recognized, but it is not clear that the current environment is conducive to action. At the national level, *most attempts to reform the system have failed*. Of the more than 700 decentralisation related bills introduced in Congress since 1987, only five (on relatively minor matters) have passed both chambers, one of which was vetoed by the president. Some of these were proposing recentralization. The national bureaucracy has continued to pursue reforms, including new efforts to adopt performance based funding, but there is no indication of major gains thus far, and there seems to be limited momentum for serious systemic reform. At the local level, there is no great clamour from citizens for better services or willingness to pay more local revenues, and local governments do not seem inclined to take bold steps. They seem content to accept large transfers, keep own source revenues low, and accept funding from other sources, including PDAF. If needed, they can blame the lack of resources for being unable to meet constituent demands. *There are, of course, reformist local governments, positive initiatives, and lessons, but there does not seem to be an urgent political incentive to act decisively to solve the problems that are inhibiting local government performance*. The status quo serves certain entrenched interests, and would-be reformers have been unable to muster the consensus and energy to advance robust reforms.

iv Uganda

Uganda has received much attention in the decentralisation literature as a developing country that *embraced significant reform with unusual enthusiasm as part of a political transition after a long period of national conflict*.³⁷ By the late 1990s, a strong constitutional and legal framework was in place, and Ugandan local governments rather quickly became among the most empowered and best financed in Africa. By the turn of the 21st century, however, decentralisation was, at least in terms of its original goals and design, in decline.

a. Underlying political economy context/drivers of decentralisation

It seems unlikely that a least developed African country emerging from a period of debilitating conflict and with a history of contentious debate about decentralisation would look to local governments as a foundational element of the state. A review of the historical background, however, reveals a coherent logic. During the early colonial period Uganda had a top-down district administration. Local governments were later created and periodically strengthened or weakened over time. Debates over federalism built around traditional kingdoms were prominent. A federal system emerged at independence, but the kingdoms were abolished quickly. The local government system deteriorated considerably before Yoweri Museveni and the National Resistance Movement (NRM) to power in 1986.

During the conflict, the National Resistance Army (NRA) mobilized support through village Resistance Councils (RCs). Post conflict, the NRM built on this by creating elected RCs with authority to plan, make decisions, administer justice, and provide services. This formed the basis for a new local government system in the 1990s. The kingdoms (some supported NRA) were officially recognized, but as cultural bodies with no formal power. It seems that a combination of the success of the RC system and the desire to build an effective and more equitable state with popular support were behind the decision to create empowered local governments. Although NRM selectively relied on international development partners for advice and support, the main impetus for decentralisation apparently came from within.

b. Decentralisation policy

The government announced its decentralisation policy in 1992 and set out to develop a system defined in the 1995 Constitution and the 1997 Local Government Act. *Most basic*

³⁶ See Nasehi and Rangwala (2011) for more detail on MMDA.

³⁷ See, for example UNCHS (2002), Onyach-Olaa (2003), UNCDF (2003), UNDP (2003), World Bank (2003), Saito (2004), USAID (2004), Ahmad, Brosio and Gonzalez (2006), Okidi and Guloba (2006), Asimwe and Musisi (2007), Kauzya (2007), Smoke et. al. (2010).

services were devolved to local governments, with the exception of urban water and sewerage and electricity (provided by national corporations). Line ministries retained responsibility for setting policies and standards, assuming supervision and monitoring roles, providing technical advice and support, and training local governments. The legal framework provided for both transfers and local revenues. Elected local councils were empowered to develop and execute plans and budgets and to hire and fire staff. Thus, decentralisation created local governments with a fairly broad set of autonomous powers and functions typical of a true devolved system.

A range of later policy initiatives appeared to promote decentralisation. The Poverty Reduction Strategy (2000), Fiscal Decentralisation Strategy (2002), Decentralisation Policy Strategic Framework (2006), and Local Government Sector Investment Plan (2006) highlight a key local government role in public functions. The Fourth National Development Plan (NDP) 2011-15 also stresses the centrality of local governments, although suggests a need for reforms. A regional government bill was passed in 2009, in part to keep kingdoms from becoming an empowered intermediate tier of government, but it has not been implemented.

c. Basic structures, actors and mechanisms

Uganda's system functions through a *unified set of elected authorities grounded at the district level (main planning and budgeting responsibility) and four lower government and administrative levels with more modest responsibilities*. The district (LC5), sub-county (LC3), and village (LC1) councils are elected by universal adult suffrage, with county (LC4) and parish (LC2) levels elected indirectly or appointed ex-officio. District/city councils and sub-county councils (municipal divisions and town councils in urban areas) are corporate bodies and accounting levels. County councils (municipal councils and city divisions in urban areas), parishes (urban wards), and villages (urban cells) are administrative units.

At the national level, the Ministry of Local Government (MoLG) is charged with coordinating, supporting, and monitoring local governments. The Ministry of Finance, Planning, and Economic Development (MoFPED) leads on financial matters. The Ministry of Public Service (MoPS) and National Planning Authority (NPA) exercise oversight related to their mandates. Sectoral ministries (education, health, etc.) ensure compliance with policies and standards and play roles in monitoring, technical support, and training. Several other bodies, e.g. for audit and inspection, also engage in local government oversight.

Several policy coordination mechanisms have been used in Uganda. The overall reform was developed under the Decentralisation Secretariat, a now defunct body attached to the MoLG. Development partners initially worked independently, which created problems. In 2002 some of them established a Decentralisation Development Partner Group, which linked key donors under a support framework in concert with government coordination efforts. There was no grand implementation strategy, but the Secretariat led developing new systems and procedures, establishing programmes and institutional linkages for training and capacity building, creating incentives for local governments to adopt reforms, monitoring local performance, and working with development partners supporting decentralisation. When the Secretariat was closed, its functions were transferred to regular government agencies.

d. Decentralisation outcomes

There is not a large body of quality empirical research on decentralisation outcomes in Uganda. *In the early years of reform, there was considerable growth in local expenditures and development projects, but little data on quality or citizen satisfaction.* A series of studies that began in the late 1990s documented problems, starting with early Public Expenditure Tracking Surveys (PETS) conducted by the World Bank and related research. The PETS process was piloted in the education sector in Uganda and was later deepened in that sector and expanded to others.³⁸ Some findings were alarming. Education allocations, for example, often did not reach intended schools, and health allocations were reduced considerably when districts were empowered to form their own budgets. A few more qualitative studies that

³⁸ See, for example, Ablo and Reinikka (1998), Jeppson (2001) and Reinikka and Svensson (2004).

focus primarily on accountability and governance have some positive findings, but also document nontrivial areas of concern. Local resources are often captured by local elites and used for patronage in the immature governance environment that prevails in many areas.³⁹

Although not the subject of much formal study, *available data raise concerns about the evolving composition of local expenditure and service delivery performance*. Real per capita expenditures by the central government increased between fiscal year (FY) 2001/02 and 2011/12, but the comparable figure for local governments has remained relatively flat and has even declined in urban areas. The share of total local expenditures for goods and services fell from 41 to 20 percent between 2005/06 and 2009/2010, suggesting higher administrative expenditures. Expenditures on education and to a lesser extent health are in decline.⁴⁰ *Service delivery coverage and quality are mixed, but performance seems inconsistent with resources expended and expectations, and great disparities persist*. Expected relationships among improved inputs, outputs and outcomes (e.g. education expenditures per student, school completion rates, and literacy rates) are often not well correlated.

Local revenue collection is in dramatic decline. Own source revenues initially accounted for 8-10 percent of the total, but this has fallen to under 5 percent. Estimates indicate that local governments collect less than half of their potential revenue.⁴¹ There is, however, great variation, with urban councils typically more independent. Weak performance is often blamed on the suspension of the productive Graduated Personal Tax (GPT), in 2005⁴², but local revenues were generally declining before that occurred. Perhaps most striking is that local governments have become very dependent on conditional transfers. Unconditional transfers accounted for a significant share (nearly 35 percent) of total transfers in FY 1995/96. By FY 2010/11, they had declined to 10.8 percent and are estimated to be less than 5 percent in FY 2012/13. The number of conditional grants has more than doubled since 2000, and a dominant share of remaining unconditional grants finance core administrative functions.

In addition to the few governance studies cited above, *other data raise concerns about how citizen perceptions of local governments and service delivery*. According to a 2008 *Afrobarometer* study of selected African countries, trust in local government is comparable with the regional average (53 vs. 55 percent), and Ugandans seem reasonably informed—they are more likely than average to know that local councillors should be accountable to people (54 vs. 37 percent). Yet dissatisfaction ratings of local government exceed regional averages. Moreover, 65 percent indicated that that it was difficult for citizens to make their voice heard between elections and 64 percent say they have little recourse if they are dissatisfied their local government. Satisfaction with services and revenue collection also fares poorly, with only one service rated as fairly or well managed by at least half of the respondents, and all ratings are near or below country averages. Some results are harder to interpret. For example 60 percent approved of their councillors' performance, but only 39 percent think councillors often or always listen to constituents and only 33 percent believe councillors handle funds honestly. Some dissatisfaction may result from greater awareness of Ugandans about the expected accountability of local governments to citizens. Nevertheless, *the data on balance suggest that Ugandans expect better services and governance than they receive*.

e. The evolution of decentralisation and local government performance

How did the less than ideal situation outlined above emerge in a country that strongly embraced decentralisation as a means for local and national development? First, *even if NRM's commitment was genuine, it seems to have been based on a limited appreciation of the implications of the reforms*. The new local governments had high governance and service delivery expectations placed on them compared to the RCs that inspired reform, which played

³⁹ Francis and James (2003) provide a discussion of the dual-mode system of “technocratic” and “patronage” driven governance in Uganda and Smoke (2008) discusses the politics of local revenue.

⁴⁰ This information is taken from World Bank (2013b).

⁴¹ This is reported by the Local Government Finance Commission (2012).

⁴² The government created new sources of revenue but these did not compensate for the loss of GPT.

a political mobilization and conflict mediation role. Second, *too much decentralisation seems to have been implemented too quickly*. The functions, resources and autonomy rapidly given to local governments were not commensurate with their capacity and accountability. This likely resulted from the home-grown nature of the reform and initial role of particular donors with limited international experience in decentralisation. The overly ambitious effort laid the foundation for performance problems, which were reinforced by failure of the reforms to build downward accountability and civil society capacity to interact with local governments.

Third, as early decentralisation measures were implemented, *influential national ministries that had focused on other priorities awakened to their potential roles that had been assigned to decentralisation bodies and local governments*. Public financial management reformers in MoFPED, for example, reworked local budgeting guidelines issued by the Decentralisation Secretariat. Line ministries began developing new delivery approaches under the PRSP and Sector-wide Approaches (SWAs) financed by donors to support the MDGs. These had centralizing elements that clashed with decentralisation policy procedures. Perhaps there could have been compromises, but the Decentralisation Secretariat (associated with the relatively weak MoLG) tried to do too much without consulting other key actors whose cooperation was required for successful decentralisation. Other actors may later have felt no obligation to worry about local governments and had other priorities. As these national bureaucratic dynamics were unfolding, the empirical evidence noted above began to document the existence of local expenditure management problems and raise doubts the quality of local service delivery. This reinforced decisions by national ministries to pursue recentralizing activities that were already on their agenda for other reasons.

Finally, *shifts in political dynamics also began to reshape decentralisation*. The pressure for multi-party elections in 2006 created incentives for incumbents to adopt policies to help them stay in power. The abolition of GPT (discussed above) immediately preceded the 2006 election. There has also been a reduction in local government power to recruit and control senior staff and control procurement.⁴³ Perhaps most critically, many new districts (and other LC levels) have been created. This is officially justified to improve local citizen voice and local service delivery, but it seems to have been done without a clear review process, some analysts see it primarily as a source of political patronage designed to help the NRM to win increasingly tough electoral battles in a more competitive climate.⁴⁴ The number of districts increased from 56 in 2002 to 80 in 2008 and to 112 in 2012.⁴⁵ Most were created without adequate assessment, and some are demonstrably not viable. The proliferation has diluted capacity, bloated local government wage bills, and possibly confused local voters.

In summary, Ugandan decentralisation was unusually internally driven and extensive for a low-income, post-conflict country. *Progress occurred, but the scope, pace and trajectory of reform seems to have been too ambitious to sustain*. Central agencies that did not initially oppose decentralisation acted when they recognized its implications for their own roles and powers. Emerging evidence on local service performance and evolving political and bureaucratic dynamics (including development partner behaviour) resulted in a range of re-centralizing policies that have weakened local government incentives and capacity. *In the current environment, there are no obvious motivations for the government, ministries, or development partners to step back from their over-reaction to the early subpar performance of local governments burdened with initially unreasonable expectations*. The situation is further complicated by an apparently renewed push for federalism from the traditional kingdoms (in part spurred by the discovery of oil) and the likely mind-set of the somewhat embattled ruling party in the new era of multi-party government.

⁴³ For more details see Muhumuza (2008).

⁴⁴ There is a detailed discussion of the history of district creation in Green (2008).

⁴⁵ The total number of subnational units increased from about 44,000 to more than 69,000 between 2004 and 2012.

VI. Synthetic Notes on the General Literature Review and Country Cases

It is challenging to synthesize the extensive and untidy literature (general and country specific) reviewed for this paper and to link the findings neatly back to the framework outlined in section III. The empirical research does confirm many conceptual expectations about decentralisation to various degrees, e.g. it can improve service delivery and governance. This is true, however, only under certain conditions, without which decentralisation can hinder or worsen outcomes. Furthermore, most of the literature focuses on limited aspects of decentralisation in different contexts, producing results that cannot be easily compared.

In short, there is no strong basis for drawing robust generalisations beyond broad (and more or less known) points outlined earlier. *Perhaps the key finding is a reaffirmation of the extent to which “context matters” in approaching decentralisation reform.* The literature is full of examples of how mainstream (often normatively inspired) approaches that were not consciously well tailored to work in specific countries enjoyed limited success. There are also cases in which reform was perhaps overly “contextualized”—captured by political and bureaucratic dynamics—in ways that reduced its efficacy. But the literature and its findings are simply too diverse—in terms of context, data, variable measurement, methodology, locations covered, underlying assumptions, etc.—to draw grand conclusions.

Given the powerful constraints on an orderly synthesis, this review does not provide detailed specific policy prescriptions; instead it remarks on factors that emerge as important for decentralisation and offers some advice about how to think about pursuing reform and how to conduct better analysis to support it. The next subsection provides summary points on the empirical literature, followed by five additional subsections commenting on how certain inadequately considered issues—context, reform integration, implementation, political economy, and development partner behaviour—seem to matter in the general literature and have played out in the case countries (summarised in Table 4).

i The Empirical Literature: Methods, Context and Results

The empirical literature on decentralisation is fragmented along multiple fronts—conceptual grounding, methodological approach, scale of analysis (macro/meso/micro), and scope of analysis (intermediate vs. primary outputs, larger reforms versus more limited elements—specific sectors, revenues, governance reforms, etc.), among others. This state of affairs is expected since the motives of various actors conducting research and evaluations differ. Yet the practical consequences are great. Different studies use diverse assumptions, data and methods, and they contextualize and explain their results to different degrees. In some cases, it is not even possible to determine the nature of the reform, e.g. whether a “decentralised” service is delivered by a deconcentrated agent of the centre, an elected local government in a devolved system, or a community organisation without governmental status.

Research on decentralisation outcomes ideally needs to be placed in the type of larger framework outlined earlier. Even if an analyst wishes to target a specific outcome, such immunisation services, local tax collection, or participation, there is a risk of adopting insufficiently contextualized (and unworkable) reforms if the broader picture is ignored. *Care is also needed in defining analytical variables.* They are often measured in questionable ways, e.g. fiscal decentralisation as the share of public spending at the local level (without reference to local autonomy or accountability); citizen engagement as the number of people at local participatory meetings (without reference to the nature and influence of input generated); revenue effort as yield (without reference to local revenue base or relative change), etc. Interpretation of results based on misspecified variables may be incorrect or misleading.

Of particular note are prominent trade-offs across methods. Quantitative methods are required to establish correlation, much less causality, and (assuming comparable data), are essential for comparative work to uncover general patterns. Qualitative methods are typically more appropriate for developing a nuanced appreciation of context and understanding certain critical processes that can be captured only crudely with quantitative methods. *While different*

methods may be appropriate for studying particular phenomena for specific purposes, they each have distinct weaknesses from the perspective of policy makers and practitioners. Even some of the stronger quantitative studies are poorly contextualized. They report findings without much explaining (for purposes of formulating fuller policies) how they emerged. It is, for example, vital to have hard evidence that a reform works best under certain conditions or that devolving a particular service often or rarely improves outcomes. But what are the policy conclusions? Should a country without the conditions not decentralise or try to modify the (perhaps durable) obstructionist conditions? Or is the real concern that the degree of and approach to reform need modification? Does evidence that devolving a service fails to improve outcomes justify recentralization? Or is the problem how it has been decentralised—with inadequate funding/revenue authority, insufficient upward/downward accountability mechanisms, limited attention to capacity development, etc.—or perhaps that the service under study is particularly susceptible to political manipulation? It is rare and difficult for (reduced form) quantitative research to address such concerns (partly due to the goals/backgrounds of researchers and partly because some key variables are difficult to quantify).

On the other end of the spectrum, good qualitative research is rich in detail and sheds considerable light on how contextual factors support or undermine the attainment of desired outcomes. It can provide information relevant for detailing decentralisation policies and operational procedures. Such analyses, however, usually only focus on a limited set of sites and issues. It is particularly challenging to conduct comparative research across countries given the considerable information, time and resources involved. Thus, qualitative analyses may suggest very specific actions for the focal area and aspect of reform being studied, but generalisations cannot be drawn. The results and the process, however, may offer interested analysts in other areas insights into what to examine and how to do so.

The bottom line is that both quantitative and qualitative analyses have much to offer the study of decentralisation outcomes, but each suffers from limitations. It can be useful to apply only one or the other for specific purposes, but this may lead to misinterpreted or incomplete (not fully explained) results. *For many issues mixed methods research should be used where feasible. At a minimum, analysts need to try to be clearer about the questions they shed light on and potentially important considerations that they have not been able to assess.*

ii Understanding Context

One of the great clichés of decentralisation is that context matters, but it is clear that there are serious challenges to reflecting context effectively in empirical research. The cases illustrate the significance of context well. In all four countries, *decentralisation was substantial and driven by crisis, but policy differences were great.* There are too many context-driven factors to cover here, but an illustrative example is that Ethiopia first targeted decentralisation to the intermediate tier of government as part of a political strategy (ethnic federalism) to maintain national unity among its ethnically identified regions. The other countries focused on lower tiers for various reasons. Indonesia was also attempting to keep the country together during a crisis, but in contrast to Ethiopia, tried to achieve this goal by not empowering the intermediate level, which was seen as inviting secessionist actions or pressures for unwanted federalism. The Philippines also opted for weaker provinces to minimize perceived political competition on the national scene and avoid problems of the previous system, but the country granted special autonomy to a region composed of multiple Muslim provinces engaged in a secessionist conflict. Uganda, the only of the four countries that adopted a federal system early on (briefly after independence), avoided regional government to marginalize the threatening political influence of the traditional kingdoms. *Analysts need to recognize how context shapes such decisions.* If research had suggested, for example, that decentralisation to a different level in one of these countries would have led to better service delivery, the policy would not likely have changed. *In such cases the policy focus should be on how to develop the best possible system given fixed institutional parameters chosen in pursuit of other objectives.*

Table 4: Assessing Neglected Issues in Decentralisation: Case Comparisons

	Ethiopia	Indonesia	Philippines	Uganda	General Comments
Context	Decentralisation adopted as part of ethnically driven state preservation strategy; public sector capacity and governance relatively weak	State preserving reform adopted in wake of major economic/political crisis; state capacity in some area, less governance capacity	Reform sparked by crisis after centralized Marcos regime overthrown; prior history of local government and some civic capacity	Post-conflict state building push for decentralisation; generally weak capacity and initially low citizen appreciation of reforms	Social, economic, political and institutional factors can support or undermine decentralisation; need careful consideration in reform design/implementation
Integration of Reforms	Technical reforms seem atypically well integrated, possibly due to more gradual implementation; political reforms weaker	Reforms are relatively self-standing and not sufficiently integrated across elements of decentralisation or with other public sector reforms	Basic integrated reform outlined in law, but the development of various elements not robustly integrated in practice	Decentralisation initially under integrated framework albeit with some problems; weakened later by political moves and other reforms	Weak integration of reforms is relatively common, both across public sector reforms and among decentralisation specific; rooted in political economy dynamics
Implementation	Implementation seems atypically measured and sequenced; this may be largely attributable to political economy factors that facilitate gradualism and stronger coordination	“Big Bang” with limited implementation strategy, but existing capacity dampened early problems; some reforms subject to deliberate processes but weak coordination of key actors	Decentralisation declared quickly but framework developed slowly due to political economy factors; does not seem to have been a sufficiently robust mechanism for reform coordination	Coordinated planning of framework, but too much reform occurred too quickly with limited rollout strategy; LG reforms overwhelmed later by other uncoordinated public sector reforms	Limited tendency for strategic implementation and often inadequate coordination of actors; even instances that seem more strategic may be partly a by-product of other forces and/or are relatively superficial
Political Economy	One party dominates, limiting political freedom, but facilitates cautious reform pace; limited space for robust local democracy the environment for local governance is improving	Despite nontrivial problems with reforms, no consensus among fragmented actors on developing policy fixes; apparently weak citizen demand for better local government performance	Strong broad support for decentralisation, but limited willingness to tackle some key problems of the system due to national and local political economy dynamics	Post-decentralisation political economy forces—some rooted in party politics, others in bureaucratic dynamics—have weakened local governments and allowed rollback of certain reforms	Political economy forces can either support or undermine decentralisation, and the nature and strength of these forces can shift significantly over time; careful on-going assessment is needed to monitor the political environment
Role of Development Partners	Have provided much support but government seems to manage well; some charges of donors unduly limiting local autonomy	Strong role supporting reform and various coordination efforts, but still considerable fragmentation that reinforces problematic inter-agency dynamics	Considerable support from many development partners, but seems to have been relatively ad hoc and with limited formal coordination	Heavy role in finance and technical assistance, at one point good decentralisation coordination that waned; coordination with support for other reforms is weak	DPs have taken steps to address problems in aid programming, but many persist; aid dependent countries are at most risk for undue competition and other problematic DP behaviours

Although critical, it is also important to note that some aspects of decentralisation reform seem to transcend context, at least at a broad level. A striking example is the explicit attempts by all of the case countries to limit autonomous local revenue sources. There is considerable sharing of national revenues in all of the countries, but own source revenues are rather limited or are subject to national constraints on their autonomous use, and in some cases local revenue powers have been rolled back. The details differ across countries, but this pattern is consistent with the findings of the general literature—it does seem that central governments are generally not comfortable giving local governments much revenue raising discretion. This may be partly due to macroeconomic concerns, but political economy factors (more below) almost certainly play a role, and again must be understood.

iii Integrating Elements of Reform

Another great concern is a commonly insufficient appreciation of the need to integrate the elements of decentralisation reform in order for potential benefits to be realized. Quantitative studies, which often examine a specific aspect of reform, rarely take an integrated approach. If multiple aspects of reform are included, this is too often done in a simplified way (e.g. some brief introductory context or measuring political decentralisation by the existence of regular elections). There is more explicit treatment of integration in some qualitative studies—for example, looking at how weak outcomes may be related to a broad range of factors—structural problems (limited revenues or autonomy), capacity weaknesses (few staff and/or inappropriate deployment/training) and governance challenges (non-competitive elections, poor information, citizen mistrust, patronage, etc.), among others.

The case studies supply considerable insight about the challenges posed by weakly integrated reforms. *Reforms often focus more on setting up technocratic apparatus of the local state than on promoting citizen capacity to engage local governments.* They seem to presume that if local systems are developed and elections held (perhaps with participatory processes), accountable local governance will follow. This, of course, plays out in different contexts. In Indonesia and the Philippines, subnational administration existed and staff and assets were transferred to local governments that could deliver services, although perhaps not what local people wanted. In Uganda, there was low capacity to perform even basic functions, whatever citizens wanted. Ethiopia focused on empowering regional states—local democracy was not targeted (except by some donor projects) because it was not a key initial objective.

Although each of the case countries adopted some administrative, fiscal and political decentralisation, there are considerable imbalances. Each has local elections, but councils are hindered by, for example, *insufficient resources* (Ethiopia, the Philippines and Uganda); *weak incentives for revenue generation* due to generous transfers (particularly Indonesia) and opportunities to secure resources from national politicians and agencies (particularly the Philippines); *constraints on local autonomy* through central controls and conditional transfers (particularly Uganda); and *anaemic constituent demands for better services* (all countries due to weak non-electoral accountability mechanisms, unclear lines of accountability, etc.) Ethiopia is also dominated by a single political party that limits political competition. These problems are interrelated, and capacity limitations can affect all of them.

iv Opening the Black Box of Implementation

The literature suggests that how decentralisation is implemented can make a powerful difference in how it functions, but empirical work is limited. Several analysts use qualitative evidence to suggest that a more gradual, staged, context-tailored process could allow local governments—and central actors with modified roles—to acquire the experience and capacity they need to meet new obligations. More modest reform in weaker environments can lay a foundation and provide momentum for later substantial efforts. Of course a gradual process can stall early on, so an effective strategy must consider how to avoid that problem.

All four case countries adopted major reform, but the implementation process differed. Indonesia pursued rapid “big bang” decentralisation in crisis. The other countries

also experienced crises and major transitions, but the pace and trajectory of reform differed. *Ethiopia adopted its new constitution quickly, but the powerful central state exercised control over implementation* as it developed systems and procedures. The *Philippines and Uganda took years to develop reforms* (respectively due to political battles and weak capacity), but once systems were defined, they came into effect quickly. Both countries had superficial strategies not tied to system and capacity development or in any meaningful way to criteria or performance. *An implementation strategy needs to consider context.* Indonesia and the Philippines had some local capacity, so it was easier to devolve functions without severe consequences, although both failed to tie implementation to reform targets. Indonesia also used a prolonged (still ongoing) process to design service devolution details. This involves elements of a strategy, but one fragmented by sector and impeded by the incentives of sector ministries. In Uganda, technical and governance capacity were generally weak, so the lack of an implementation strategy tied to developing capacity (aside from limited use of compliance/performance based capital grants) led to weak outcomes and created space for those who wished to roll back local autonomy. Local capacity in Ethiopia was also weak, but this was to some extent offset by more gradual/strategic implementation.

A central aspect of implementing decentralisation is coordinating actors involved in effecting and supporting decentralisation. In Ethiopia, the *strong state consolidated key central agencies and had an overarching approach* to public sector reform. In other countries, weak coordination has been prominent. As noted above, *central actors in Indonesia pursue separate decentralisation-related activities.* Various coordination mechanisms have existed, but all suffered from deficiencies, including being led by interested parties (undermining the trust of other actors), focusing too much on policy design and too little on implementation, and having weak enforcement powers to ensure that central government actors would comply with decentralisation commitments. Uganda had *a unified approach through the coordinating role of the Decentralisation Secretariat* discussed above. The Secretariat, however, was attached to a relatively weak ministry and did not consult effectively with other key players. The latter in turn, later developed their own decentralisation related reforms based largely on the agendas of individual institutions, sometimes at the expense of decentralisation policy.

v Deconstructing the Political Economy

Perhaps the most dominant factor that shapes decentralisation—and one of the least visible in much of the literature—is the political economy underlying the adoption, design, implementation and modification of reforms. Political economy dynamics can be national, intergovernmental or local. Bureaucratic dynamics that support or oppose decentralisation also fall under the political economy umbrella. Common issues were outlined earlier in the paper and reinforced in the literature review and case studies. The majority of political economy empirical analyses are qualitative, but some interesting econometric work cited above considers how political economy phenomena, such as patronage, affect outcomes.

The case studies are infused with political economy concerns. *The politics underlying initial reforms were noted, but the influence is much broader.* Ethiopia illustrates how a *unified central government (albeit in a dominant party state) can exercise discipline* to limit typically constraining political economy dynamics and instil a sense of mission that promotes reform at all levels. Indonesia and Uganda show that how *central actors reluctant to release power and interagency competition* prevent reform from occurring as designed. *Poor local performance based in part on such obstacles has resulted in recentralization,* relatively modest in Indonesia (e.g. reinstatement of budget/hiring oversight removed by initial reforms) and more severe in Uganda (a dramatic shift to conditional transfers and increased central oversight). The Philippines case shows how *incentives faced by national legislators and lobbying* by strong interest groups can shape aspects of law and policy, such as the size and allocation of the IRA and composition of devolved functions. Change in the national political scene can also matter. Internal and external pressures to adopt multi-party elections in Uganda motivated the ruling party to take steps (such as new district creation) that, while

not necessarily intended specifically to weaken local governments, very much had that effect. In Ethiopia, the increasingly stable dominance of one political party and the arrangements with regional states opened the space for a more developmental orientation and created the impetus for extending decentralisation to lower levels of government.

The cases (and broader outcome literature) provide powerful examples of how political economy generated interactions among levels and at the local level can affect outcomes. Local governments in the Philippines, for example, lobby for resources from members of congress and national ministries so as to reduce their need to raise resources locally. This can enhance service delivery, but may do so at the expense of developing critical local governance relationships (including revenue generation). At the local level, the various impacts of vote buying, patronage and elite capture on resource allocation and service delivery was illustrated by a number of studies on Indonesia, the Philippines and elsewhere.

vi Role of Development Partners

The roles played by international development partners to promote and support decentralisation are well recognized (relevant literature cited above). *Many donors long supported mostly technical and formulaic reform approaches, with inadequate consideration of political and institutional feasibility in a given country.* They focused on normatively desirable outcomes with limited consideration of key issues noted above, including politics behind reforms or the complex challenges of implementation. Citizen empowerment support was often channelled separately, for example, through civil society or CDD activities. There is recognition of such problems in the literature, along with concerns about the continued use of semi-parallel mechanisms and the failure of partners to coordinate decentralisation support with their support for other public sector reforms. *Development partners have certainly taken steps to alter these practices, but they have far from withered away.*

Development partners were not the primary drivers of decentralisation in any of the countries reviewed here, but they have played important roles. Ethiopia is fiercely independent, although there is some evidence that donor priorities place some limits on local autonomy in resource programming. Attempts to coordinate development partner efforts have been pursued, but they seem relatively loose/informal in the Philippines. Coordination has been more formal in Indonesia and Uganda, but not strong enough to prevent some partners from being more concerned about their agendas than with harmonised/coordinated support, sometimes in the process reinforcing problematic political economy dynamics among counterpart institutions.

Development partner roles evolve over time, but sometimes this plays out in narrow and somewhat faddish ways. The recent preoccupation with measuring development outcomes, for example, is at one level a welcome and productive development. There is, however, a danger that too exclusive a focus on documenting outcomes may result in insufficient attention to support for countries facing the strong challenges involved in developing the systems, processes and incentives that are critical for attaining sustainable results from decentralisation reform, as highlighted throughout this paper.

VII. Concluding Statement

Both academics and practitioners have increasingly given considerable attention to the impact of decentralisation on development outcomes as such reforms have become a more and more prominent feature of development policy. Researchers and policy analysts have generated much information of varying types and quality, which has been used—sometimes appropriately and effectively and sometimes not—to influence the design, implementation and modification of decentralisation and local governance reforms across the globe.

Despite this progress, the most obvious conclusion of this review is that there are many consequential gaps in our knowledge about this topic and how to apply it in the real world. The complexity and diversity of decentralisation across dissimilar countries create a daunting range of analytical and practical challenges that complicate developing neatly deterministic knowledge on the role of decentralisation in improving local development outcomes. Accordingly, no satisfyingly precise conclusions or orderly sets of well-evidenced generalizations have emerged. Instead, the review has tried to:

- Outline the *landscape of decentralisation and the general contours of empirical evidence* on how it affects outcomes;
- Illustrate the *limitations of and key gaps in existing knowledge*;
- Highlight *major advantages and disadvantages of different approaches* to analysing decentralisation and its outcomes; and
- Elaborate on a number of *important factors that are critical in shaping decentralisation outcomes but receive inadequate consideration*.

Beyond the general prescriptions of existing decentralisation policy frameworks, a few specific recommendations can be made on the basis of this review. *First, context clearly needs much more careful treatment than it generally receives.* Some aspects of context help to explain why decentralisation has been or is likely to be approached in a certain way. Other aspects can inform analysts about specific features, sequencing, and other important dimensions of reform that need to be considered if decentralisation is to be successful. There is much superficial attention given to context, but not always in a way that provides usable insights into how to promote more effective reform.

Second, not all decentralisation analyses can be comprehensive, but they should be better framed to recognize interdependencies among elements that must work together if the larger reform is to be successful. The common divide between technical and political aspects of decentralised governance is a prominent example of analytical failure on this front. A local government system, for example, can adopt cutting edge fiscal and administrative reforms, but they may not have a beneficial impact on outcomes if citizens are not engaged in the local political process and local governments face weak incentives to use these systems well. There is much scope for better recognition of how the elements of decentralisation work together, even in conducting analyses that are primarily focused on specific features of reform.

Third, it is essential to redress the common imbalance between decentralisation design and decentralisation implementation. A strategy for the latter is a much-neglected concern that is critical for making even the best-designed decentralisation work on the ground. Without a pragmatic strategy, for example, too many reforms may be adopted too quickly, overwhelming the absorptive capacity of local governments. Where strategies exist, they have often been mechanically framed and/or not implemented as planned, and they are commonly fragmented across central agencies. Coordination of key actors remains a deep challenge. These are difficult issues to deal with even if there appears to be a consensus to do so, but greater awareness and knowledge about reforms elsewhere can provide a basis for a more reasoned approach to rolling out (and adapting) sustainable reform on the ground.

Fourth, political economy needs to be more centrally incorporated into decentralisation analysis. Such dynamics have long been treated unsatisfactorily, often getting lumped under the clichéd rubric of “political will” with little recognition that even

some actors strongly supporting reform were primarily concerned with their own agendas and had inconsistent (perhaps hostile to true decentralisation) reform visions. Dynamics that threatened reform were typically framed as constraints to be overcome with technically sound policy designed by objective analysts. Although this perspective has some validity, there is also generally a need for more carefully crafted pragmatic compromise between what is technically desirable and what is politically feasible if sustainable reforms are to be adopted. There is extensive literature, for example, on technical fixes for fiscal decentralisation problems, but much less study of how to take positive steps towards making them work in weak governance or challenging political environments. Political economy dynamics are integral to decentralisation, and they deserve much more careful consideration in designing, implementing, assessing and modifying reform.

Finally, development partners have an obligation to reflect and act more critically and strategically in framing their decentralisation support. Their behaviour can be critical for decentralisation, especially in aid dependent countries, and they have often not lived up to promises to reform how they do business. Formal coordination is not necessary or desirable on all fronts and need not be onerous, but problems caused by weak alignment and poor coordination are well known to be consequential. At a minimum, development partners need to avoid reinforcing problematic country political economy dynamics and engaging in unproductive competition. There is much scope for stronger effort on this front.

Given the variations in context and needs across countries and differences in the focal interests among analysts, there is not likely to be a single, generally accepted “best practice” approach to analysing the potential and actual impact of decentralisation on development outcomes or to designing and implementing related reforms. The state of knowledge on these matters has been broadly summarized in this paper, but there is considerable need for more systematic study and innovative approaches to fill gaps in current knowledge. Some matters that merit further attention, among others, would include:

- Further unpacking the *dynamics among various characteristics/elements/dimensions* of decentralisation and how they affect outcomes in general and in specific cases;
- Better documenting both *objective and subjective indicators of decentralisation* outcomes, the relationships between them, and implications for decentralisation policy design and implementation;
- Improving *linkages between quantitative and qualitative analysis* in ways that tap their respective strengths;
- More fully documenting *specific relationships among decentralisation actors*, from central policy makers to citizens at the community level, and how they evolve over time;
- Examining the under-explored *role of autonomous local governments in promoting local development through their general mandate* for improving the well being of their constituents (beyond merely delivering specific services devolved by the centre).

More work in these areas could help to alleviate major deficiencies in our understanding of decentralisation and how it plays out in comparative settings.

At the same time, in a landscape as multifaceted and diverse as the one in which decentralisation occurs, practitioners cannot rely on research results alone—they need better pragmatic diagnostics that provide robust but flexible guidance for examining in a more integrated and penetrating way the relationship between decentralisation and development outcomes in a particular case. Such tools would need to be framed so as to be accessible to the diverse range of actors who work on decentralisation, who have varying backgrounds and interests, as well as different expectations of decentralisation and analytical frames of reference. Useful diagnostics would ideally expedite greater practical understanding of:

- *How decentralisation, local governance and local development mechanisms are structured and how they do and could interact* (e.g. the relationships outlined in Figure 1 and incompletely explored in the literature);
- *How these various mechanisms perform* (or might perform) in the context of a particular country or location; and
- *Which reform facilitators or blockages*—some of which may be outside the comfort zone of a particular interested party—are likely to emerge or may already require attention to enable more effective decentralisation.

These diagnostics would be useful in countries where decentralisation is being defined or still emerging, but they would also help in determining how decentralisation might be adjusted for better performance in countries where it is in various stages of process but has faltered in some way. *Developing such an integrated diagnostics is beyond the scope of this paper, but the analysis presented here underscores the potential importance and parameters of such work*—practitioners cannot rely solely on the findings of formal empirical and practitioner research about experiences elsewhere; they need to learn from those findings and to conduct and interpret appropriate analyses in specific settings in which they are working.

In short, much work remains to be done. The outstanding agenda is demanding, but the benefits of devoting more time and energy to understanding how decentralisation affects local development outcomes are obvious. *Whatever current or future empirical evidence may suggest, some form of decentralisation seems likely to persist in many countries.* As discussed at length, its fundamental drivers are political, even if normative development objectives enumerated in decentralisation theory and development partner frameworks are important or emerge as priorities over time. Equally notable, decentralisation is certainly not universally desirable, but there is sufficient evidence to suggest that some form and degree of decentralisation (broadly defined) can help to meet development objectives in many contexts.

If decentralisation is going to be pursued, the key task for practitioners is to help ensure that it works as effectively as possible. Decentralisation reform requires learning how to achieve in a particular context workable compromises—between normative principles and contextual (including political) realities, between the legitimacy of national priorities and the legitimacy of local priorities, and between the need for central standards/regulation and the need for local autonomy in contexts where some degree of downward accountability is in place or emerging. Appropriate balances between these phenomena are not constant—they will need to evolve over time as conditions, opportunities and constraints change. Empirical analysis is critical in understanding the relevant relationships, trajectories and dynamics, but no single method can provide the information needed to develop and implement good policy. Much can be done to improve the evidence base, but it is essential to frame research well and to ensure that assessment of outcomes does not neglect analysis of the systems, processes and procedures needed for decentralisation reforms to be sustainably effective.

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Annexes

Annex 1 – Terms of Reference

Literature review on the role of decentralisation/devolution in improving development outcomes at the local level

1. Introduction

The UK Department for International Development (DFID) is placing increased importance on the collection and use of evidence to inform its policies and programmes. This evidence is collected through research and analysis funded by DFID and from other sources. As one of the largest funders of development research covering a wide range of sectors, DFID has a well established Research and Evidence Division (RED), which leads on the collection and dissemination of research evidence. The South Asia Research Hub (SARH) based in New Delhi works as part of RED to improve the outreach of its global research into country and regional programmes and supports DFID country offices and their partners to become better users and commissioners of research.

Decentralisation as a policy initiative is often designed and implemented with the explicit intention of improving development outcomes at the local level. Broadly decentralisation is measured on three dimensions: (i) **political** (relates to the nature of democratic decentralisation/devolution including local electoral representation, new powers of decision making and also transfers power to the sub-national levels and beyond the state, strengthening community voice and empowerment); (ii) **fiscal** (related to new financial powers); and (iii) **administrative** (greater control over staff). Some of the common development outcomes aimed to be achieved through decentralisation are: *poverty reduction, peace and political stability, fiscal improvements, inclusion, participation and decision making by the poor, voice, accountability and transparency, local infrastructure, health outcomes, education outcomes, water sanitation outcomes etc.*

Experiments with, and enthusiasm for, decentralisation are common across the globe. However, the impact of decentralisation has been mixed. The causal links between decentralisation and development outcomes are not well established despite a wide range of available literature. While Treisman (2007) notes that “almost nothing that is robust or general has emerged” on the consequences of decentralisation, Channa and Faguet (2012), based on a quality-adjusted literature review, observe that “higher quality evidence indicates that decentralisation increases technical efficiency across a variety of public services, from student test scores to infant mortality rates”. The same authors report that decentralisation can improve the responsiveness and accountability of the state, decrease corruption, increase the political voice and participation of ordinary citizens, and also reduce bureaucracy and lower the unit costs of government expenditure (Channa and Faguet, LSE Research Online, 2012).

The main reasons for undertaking decentralisation are often political, but governments also adopt it as a way to improve service delivery and local governance. Decentralisation of power is seen as an instrument for absorbing ethnic and regional conflicts (Brosio 2002). The World Bank (2008), based on a 20-year evaluation of its decentralisation support programmes concludes that, although decentralisation has a mixed record with regard to service delivery, there is a general recognition that certain conditions are necessary for positive impact. These are:

- i. Adequate authority over functions and corresponding expenditure
- ii. Adequate financial resources
- iii. Certain level of implementation and managerial capacity to utilise additional resources

- iv. Accountability for the use of resources
- v. Government ownership

Literature appears particularly wanting in the area on how improved service provision is achieved through decentralisation (Channa and Faguet, 2012). A key question therefore is how exactly does decentralisation effect service provision and through this impact on development outcomes?

In particular, there is limited understanding on how the various instruments of decentralisation are deployed to get to the development outcomes. Four of the most common instruments/strategies of decentralisation are related to: (i) *Finances* - formula-based fiscal transfers from national to local government (block grants); (ii) *Functions* - Transfer of functional authority to local governments through policy changes, (iii) *Functionaries* - Improved staffing (numbers and quality) at the local level through administrative changes, and (iv) *Voice and community empowerment* – through community driven development strategies (Crook and Manor 2002; Eaton, Kaiser and Smoke 2010; UNCDF, 2010) .

2. The Objective

The key objective of this task is to carry out a literature review of published and grey literature to analyse how decentralisation initiatives (particularly in fragile countries) have impacted on development outcomes.

As should be clear from paragraph 2, the term ‘development outcome’ is wide ranging. It is suggested therefore that the literature review should analyse the impact of decentralisation on the 3-4 main stated (and intended) development outcomes in each context. These 3-4 outcomes will have to be chosen out of several objectives that are normally associated with any decentralisation project. This will require assessing the explicit and implicit theories of change of decentralisation in each context and to examine if and how these were borne out in practice. The focus should be on the causal links between decentralisation and the identified development outcomes.

This study will aim to close the gap on the question ‘how does decentralisation affect development outcomes?’ This would require more focus on the policy context, the nuts and bolts of decentralisation strategies, the instruments used, the implementation modality adopted and the sequence followed, etc. This would also mean a review of unintended outcomes or even negative consequences that may have resulted from decentralisation in a particular country context (for example, increased corruption due to poorly managed decentralisation is often cited as a negative outcome).

The review will inform the design and implementation of a new local governance and service delivery programmes in Nepal and in addition, will provide an analytical basis for a new DFID Policy Division work stream on decentralisation.

3. Scope of work

The literature review will draw on global evidence but will examine in particular processes through which decentralisation has been carried out across four countries: Uganda, Ethiopia, Indonesia and Philippines. These four countries provide a mix of the following parameters of decentralisation:

- **Ethiopia:** Big Bang devolution, federal country, subnational government dependent on < 75% on transfers from national government
- **Uganda:** Gradual, Unitary and subnational government dependent on > 75% on transfers from national government

- **Indonesia:** Big Bang, Unitary country, subnational government dependent on > 75% on transfers from national government
- **Philippines:** Big Bang devolution, Unitary country, sub-national government dependent on < 75% transfers from national government

The study will focus on the following areas of inquiry:

- i. **Political / Policy** – What is the historical, institutional, political, social and economic context in which decentralisation happened?
- ii. **Development outcomes** - What development outputs and outcomes were stated (and intended) to be achieved through the decentralisation process? (E.g. poverty reduction, peace and political stability, fiscal improvements, inclusion, participation and decision making by the poor, voice, accountability and transparency, local infrastructure, health outcomes, education outcomes, water sanitation outcomes, etc). What was the explicit or implicit theory of change for each decentralisation initiatives? (Provide necessary comments where relevant if the theory of change has been weak or unclear and its impact on development outcomes in these four countries).
- iii. **Instruments/Implementation strategy** - Analyse the effectiveness of the following instruments used in achieving development outcomes:
 - a. Finances - formula-based fiscal transfers from national to local government (block grants)
 - b. Functions - Transfer of functional authority to local governments through policy changes
 - c. Functionaries - Improved staffing at the local level through administrative changes
 - d. Voice and community empowerment – through community driven development strategies.
- iv. What modalities were used to implement the decentralisation policy (the use of grey literature/project documentation is recommended for us to assess this point)
- v. What were the links between specific decentralisation initiatives and wider public service/public sector reforms? What sequencing or policy coordination was followed across political, administrative and fiscal decentralisation and what capacity initiatives were needed to accompany the decentralisation roll-out?
- vi. **Lessons for donors and technical assistance** – What lessons can be drawn regarding the role that donors and technical assistance can play in improving the decentralisation process?

The review will draw general lessons from global literature but will particularly focus on how the decentralisation policies were implemented and what was achieved as a result in the four selected countries. Based on the country level assessments, it will draw generic findings and lessons, where possible, but will also identify success factors that may have been context-specific. A brief commentary on decentralisation in South Asia will be provided in the annex.

4. Methodology

The study will be based on a desk review and will draw on all available published and grey literature on the topic. The product will be a critical review that will summarise, synthesise and analyse the available evidence and identify what evidence gaps exist on the issue.

The narrative will be accompanied by illustrative graphs and diagrams where relevant. For assessing some of the questions, such as point 3 in Section 3, relating to implementation modality - grey literature/ project documentation/ micro-research reports will need to be accessed and used. These should be available from DFID, World Bank, UNCDF, UNDP and other donors for the countries mentioned. For accessing information, especially on implementation modality, telephone / email / VC discussions may be needed with the World Bank, DFID, UNDP and UNCDF project staff (who are active in supporting decentralisation in these countries and in regional offices/headquarters). The World Bank is active in all the four countries and has lessons to offer. DFID is active in the three countries except the Philippines. UNCDF has published on decentralisation covering all the four countries and UNDP should have people working in these countries.

5. The Recipient

This study is expected to benefit all development stakeholders and will contribute to regional and global public goods research. The direct recipient of the services will be the DFID South Asia Research Hub and DFID Nepal.

6. The Requirements

The service provider selected will undertake the following outputs to meet the objectives of this study:

- a) Inception report: This report will provide an overview of the work plan and secondary data collection strategy. This report will also include a final list of research questions based on an initial rapid review of the available literature
- b) Draft report: This report will address the issues listed under the scope of work. The report will be in the form of a narrative description and will be supplemented by tables and graphs where relevant
- c) Final report (not more than 40 pages). The main report should include generic findings and a synthesis of the country reports. Detailed country specific information/notes should be presented in the annexes. Additional annexes should be provided as needed.
- d) Presentation of final report and recommendation to key DFID recipients in Delhi or in London

The product will meet DFID standards for a literature review while at the same time be presented in a form that is highly usable by policy makers and programme managers.

7. Expertise

The research team should be able to demonstrate prior experience in conducting analytical reviews in a relevant field. The research team should be able to demonstrate: (i) excellent understanding and applied knowledge of the various aspects of governance, decentralisation and public sector reforms, (ii) understanding of different implementation modalities used in decentralisation programmes, and the links to accountability and responsiveness and key aspects of social development. Additional expertise on one or two sectors (such as health and education) and their links to decentralisation will be preferred.

8. Timeframe & Payment Terms

The contract will run from 01 May 2013 to 30 September 2013. The payment for the task would be based on deliverables as listed in the following table:

Milestone	Timelines	Payment Terms
Inception Report	Within 2 weeks of signing Contract	15%
Draft Report	within 2 months of signing Contract	40%
Final Report	3 months	45%

9. Reporting

The consultants will report to Nupur Barua, Deputy Head, SARH. A preparatory discussion will be organised at the start of the contract with subsequent review meetings to assess progress. Jaydeep Biswas, Governance Adviser, DFID Nepal will join the review meetings whenever possible. The research product will be delivered to SARH which will be used by DFID Nepal and DFID's Policy Division in the UK. The report will be peer reviewed by key staff in DFID's research and policy divisions.

10. Constraints and Dependencies

The main assumption for the timely delivery of this study is premised on the ability of the research group to mobilise its personnel at short notice and deliver as per Section 6. While DFID may be able to provide initial contacts in key development partner agencies, the task is dependent on the consultants' ability to contact, engage and garner data from the development partners in the four selected countries.

Annex 2 - Approach and Methodology

This is a review rather than an original conceptual or empirical paper. The first step, therefore, was to conduct a broad canvassing and assessment of available materials before deciding how to frame the report. This includes overview/synthetic work that has been produced on the objectives and effects of decentralisation and the forces that shape it in order to frame the larger landscape. This portion of the work covered a range of academic sources, development partner frameworks, policy statements and evaluations, and various reports prepared by other interested parties.

The second step was to look at the publications of and to consult representatives of key development partners regarding their own work and views on decentralisation and development outcomes. The agencies contacted include, among others, the World Bank and the major regional development banks, a number of UN agencies (including the UN Development Programme and the UN Capital Development Fund), the OECD, EuropeAid, and several key bilateral actors, such as the UK Department for International Development and the US Agency for International Development.

The third element was a review of both the academic and practitioner empirical literature that has emerged specifically on decentralisation and development outcomes (broadly defined as indicated above). The focal sources included major academic journals in fields related to development and governance, major publishing housings (with some focus on development and public sector reform), key international development agencies, and selected relevant organisations, such as United Cities and Local Governments, the global local government membership organisation; the Overseas Development Institute, a leading UK think tank on development issues; and the Urban Institute, a US based think tank that works extensively on decentralisation and local government.

The last major segment involved identifying available literature on the four case countries: Ethiopia, Indonesia, Philippines and Uganda. Some synthetic analyses (in both academic and practitioner literatures) have already been conducted on these countries, although their focus, detail timing and quality are uneven. In addition to existing syntheses, there were efforts to review additional academic and practitioner literature as well as to contact selected development partners, researchers and government officials based in or with strong knowledge of these countries.

The large volume of general decentralisation literature was used as background information to set up the review—there was no attempt to assess or synthesize it comprehensively. The empirical literature on decentralisation and development outcomes had to be culled for manageability and could have been organised in many ways. It was sorted into categories that seemed reasonable (see below) for present purposes, and for each category the methods and findings were summarized and assessed. Given the volume and scope of relevant literature, general comments were typically provided for a category of work, with a bit more detail about a few specific examples. Finally, in framing the material on specific cases, every effort was made to include the set of issues outlined in the ToR—political/policy context; development outcomes; instruments/ implementation strategy; modalities/steering mechanisms; links to other reform areas; and lessons for development partners and technical assistance. There was some modification of the organisation of the material, but a standard outline was used for each case.

An overarching challenge was to select the materials for use in the review and to decide how exactly to incorporate them. The literature on decentralisation, as already indicated, is vast, uses different methods and is of uneven quality. Perhaps most important, much of it is framed in relatively narrow terms, whether defined by the conventions and priorities of particular academic disciplines or the scope of work defined by development partners with their own specific interests. To some extent this is inevitable—decentralisation, not to mention how it affects development outcomes, is so complex that research must be

framed narrowly enough to be doable. At the same time, the ToR call for assessing the broader theory of change underlying a specific approach, the causal links between the decentralisation measure and outcomes, the relationships between decentralisation and other reforms, and other critical analytical concerns. As explained more fully below, only a few studies (mostly cases and qualitative assessments) systematically and deeply consider these larger (highly complex and context specific) issues, but an attempt was made to pull the more fragmented elements together. There is no denying, however, that there are huge gaps in the literature and its interpretation that need to be filled.

Annex 3 - Empirical Literature: Key Development Outcomes

a. Service delivery

A large part of the literature on the role of decentralisation on development outcomes focuses on different aspects of the delivery of local public goods and services, such as effectiveness, efficiency and equitable distribution. Here, the vast majority of the research looks at effectiveness, usually defined as the quantity or quality of services provided at the local level. A much smaller set of studies examines the more narrowly defined concept of efficiency in service delivery, and another somewhat smaller set assesses equity.

i. Effectiveness

Most of the empirical studies examining the role of decentralisation in service delivery assess the effectiveness of decentralised entities in providing public services. Here, the expectation is that empowered local governments will be able to provide more and better quality services to their constituency due to efficiency gains and greater government responsiveness at the local level.

The landscape of empirical research in this area is very diverse with substantial numbers of studies conducted at all levels and using both quantitative and qualitative approaches. At the macro level, quantitative (e.g. Dinar et al., 2007; Escaleras & Register, 2012; Khaleghian, 2004; Kauneckis & Andersson, 2009; Schneider, 2003b) as well as qualitative studies (e.g. Agrawal & Ribot, 1999; Booth, 2010; Prawda, 1993; Robinson & Stiedl, 2001; Von Braun & Grote, 2000; Wild et al., 2012) present predominantly mixed results that suggest decentralisation is having some positive impact on the delivery of local services in some cases, while also contributing to a deterioration or interruption of services in others. It is not possible to meaningfully generalize about the results of these studies, so some examples with more detail are provided.

Among the quantitative studies, Kauneckis and Andersson (2009), for example, use a large sample of municipalities from Brazil, Chile, Mexico and Peru to examine the effect of decentralisation on natural resource management services. They find large variation in the quality of service delivery among municipalities attributing it to variability in institutional design as well as national and local incentive structures across countries and local governments. The quality of service delivery for each municipality is measured using a binomial variable indicating the quality as high or low, based on the average assessment of at least two CBOs operating in its jurisdiction. The data set used in their analysis was collected by the FAO and drawn from national statistics and contains a large number of highly relevant variables on institutional, and political economy factors, such as electoral competitiveness, municipal budget, number of CBOs in the municipality, etc. However, due to the cross-sectional and non-experimental nature of the data, the logit estimation approach can only establish association, not causation. Furthermore some of their measures, in particular the quality of service delivery, are rather crude and based on CSO perceptions that might be biased due to their own political agendas or other factors.

Among the macro-level research pursuing a qualitative approach, Robinson and Stiedl (2001), for example, conduct a comparative study of decentralised road administration in Nepal, Uganda and Zambia. They find that decentralisation does not lead to improvements in the delivery of rural transport infrastructure services. The subnational administrations are overwhelmed with issues of management and procurement, and struggle to accommodate local needs in their planning as these prove to be “far less amenable to cost-benefit analysis” (Robinson & Stiedl, 2001, p. 62). They do not provide a detailed description of their methodological approach, but they do acknowledge that their time in the field and number of interviewees were limited, raising questions on the validity and broad applicability of their findings.

A much more extensive and elaborate research approach is presented by Booth (2010), who provides a midway analytical report of a coordinated multi-country research project examining factors affecting local public goods provision in Sub-Saharan Africa, focusing on bottlenecks resulting in the under-provision of essential services, such as maternal health, water and sanitation, facilitation of local economic development, and security. The findings provided by the case studies with regards to service delivery are mixed. In the health sector for example, the case study from Niger reports that clientelistic appointments prevent the rational allocation of human resources with a negative effect on staff discipline and performance. In contrast, the health sector in Rwanda is found to benefit from a reasonably coherent institutional framework, leading to improved health outcomes, such as mothers consistently giving birth with the assistance of trained professionals. The research approach is described as consisting of several layers of primary and secondary data collection and analysis that allows for validation and refinement of results strengthening their credibility. Preparatory reflections were based on a detailed review of previous studies and secondary literature. These constituted the basis for designing a series of ‘scoping missions’, followed by preliminary team-based field research on 6 countries. The findings from fieldwork were again compared to relevant material in the literature, and the authors present the consolidated findings. In a subsequent step, these findings are intended to serve as input for setting the agenda for more extended empirical research on identifying “institutions that work for poor people” (Booth, 2010, p. 2).

The majority of the studies assessing the effect of decentralisation on service delivery are conducted on the meso-level, using both quantitative and qualitative approaches. Here the quantitative studies (e.g. Acedo et al., 2007; Agrawal & Ostrom, 2001; Andersson, 2004; Andersson, et al. 2006; Aslam & Yilmaz, 2001; Bird & Rodriguez, 1999; Eckardt, 2008; Faguet, 2005; Faguet & Sanchez, 2008; Guess, 2007; Nath & Schroeder, 2007; Palmer & Engel, 2007) generally seem to be painting a somewhat more favourable picture than the qualitative studies (e.g. Bossert et al., 2007; Geo-Jaja, 2006; Gershberg et al., 2009; Gomez, 2008; Jeppsson, 2001; Kahkonen & Lanyi, 2001; Kivumbi et al., 2004; Mearns, 2004; Maro, 1990; Phommasack et al., 2005; Rhoten, 2000; Singh, 2008; Wittman & Geisler, 2005).

On the quantitative side, Aslam and Yilmaz (2011) examine the impact of Pakistan’s decentralisation reform, which started in 2001 on the provision of services such as street paving, water canals, sanitation sewer lines, and school facilities. They exploiting a unique longitudinal (1995-2007) data set of 183 randomly selected villages. They use a Poisson regression model with village fixed effects controlling for time-invariant differences between villages to estimate effects of decentralisation on service quantity. They find that the magnitude of services increased significantly, although not uniformly across villages and services. In particular, street paving is the most uniformly provided, while water canal provision appears to be strongly skewed across villages. They conclude however that the observed pattern does not conform to classic patronage theory and that further analysis is required to further explain the determinants of their findings. Given their sophisticated estimation approach, the authors’ findings seem fairly credible, even though some time-variant unobserved heterogeneity might still be present, resulting in some minor bias of the results.

Also drawing on quantitative data, Palmer and Engel (2007) conduct a study at the meso-level estimating the effect of decentralisation on forest management outcomes in Indonesia. Using descriptive methods, they analyse household survey data from 60 villages in East Kalimantan to assess the impact of mechanized logging before and after decentralisation. They find that under decentralisation, the financial and in-kind benefits to households notably increased, but for some at a high social cost imposed by intra-community conflict. While the findings are illustrative of shifting social dynamics in the forest sector under decentralisation, their descriptive nature of their data analysis does not allow for an exact quantification of the impact.

Qualitative research at the meso level tends to unearth mixed or negative relationships between decentralisation and the effectiveness of local public service delivery. Phommasack et al. (2005) for example provide a comparative account of the performance of the health sector during the period of decentralisation in Lao PDR between 1987 and 1992 and the subsequent period of re-centralization. They report that decentralisation had a negative impact on the provision of health services due to a lack of local financial resources that resulted in considerable delays in salary disbursement or an inability to effectively control disease outbreaks, and a lack of qualified staff such that there was a decline in the availability of services. After re-centralization, when the Ministry of Health reasserted control of budgeting, financing and staff management, the situation gradually improved resulting in an increase in the utilization of health facilities. While timely coincidence alone is not sufficient evidence for a causal relationship, the detailed account of the mechanisms accompanying the de- and subsequent re-centralization provide a traceable picture of the impact of decentralisation on health services.

Another example from the health sector is provided by Bossert et al. (2007), who examine the effect of decentralisation in Guatemala and Ghana on the effectiveness of delivering 15 different medicine logistics functions. They find that less decentralisation results in better performance for some functions (inventory control and information systems) while more decentralisation leads to better performance for others (planning and budgeting). Their conceptual approach to decompose the provision of a service into its different functional components is an interesting one. Specifically, they use a "Decision Space Assessment Survey" assessing the degree of autonomy in decision making as well as the level of performance for each of the 15 logistics functions⁴⁶ related to medicine supply, by conducting semi-structured interviews with key local stakeholders. These and other findings can contribute to the identification of best practices for the intergovernmental division of roles and responsibilities for effective service delivery.

At the micro-level, the studies mainly employ qualitative methods (Benjamin, 2008; Datta & Varalakshmi, 1999; De Oliveira, 2002; De Sardan, 2012; Gideon, 2001; Jones et al., 2007; Larson, 2002; Mohmand & Cheema, 2007; Nygren, 2005; Rivarola & Fuller, 1999; Satria & Matsida, 2004; Workman, 2011). These studies again provide a diverse array of findings that cannot be neatly synthesized.

Jones et al. (2007) conduct a qualitative assessment of the role of education committees and mothers' committees in co-managing local public services in villages in Andhra Pradesh (India). Basing their analysis on respondents' perceptions of service quality, they conclude that villages with proactive committees and/or service providers experienced improved local public health and educational services, in particular where committee members themselves got involved in extension work. However, the authors also observe a bias towards infrastructure development, which suggests local political leaders may benefit from kickbacks from contractors.

Overall, the picture of the role of decentralisation in the effectiveness of service delivery is a complex, with no clear direction emerging. Some studies are simply focused on basic results, while others decompose results and/or make a greater effort to explain their findings, both desirable features. One issue here might be a divergent understanding of what is considered an effective service, and the importance of clarity and consistency on this front is clear. Also, some services might simply be easier to organize and provide effectively at the local level than others, as theory predicts, and are more suitable for sharing across levels. Such differences need to be taken into account for comparative research.

⁴⁶ The logistics functions were financing, budgeting/planning, product selection, needs assessment/forecasting, procurement, inventory control, warehousing, transportation, logistics information systems, human resource management, training, supervision, organisational support, quality control, and client contact (Bossert et al., 2007).

ii. Efficiency

A much smaller portion of the literature examining the effects of decentralisation on service delivery focuses on the more narrowly defined concept of delivery efficiency. According to theory, gains in allocative and operational efficiency constitute the main argument in favour of decentralisation, as local governments are expected to be able to use the available resources in a way that results in services providing greater welfare gain for their constituency than if the central government were to provide them. Thus the literature reviewed here focuses on public services and to what extent decentralisation can contribute to their more efficient delivery.

Among this body of research, quantitative studies (Asthana, 2003; Asthana, 2013; Prawda, 1993; Schneider et al., 2003b) tend to target meso- and macro-levels, while qualitative studies (Kubal, 2006; Maro, 1990; Mubyazi et al., 2004; Wilder & Romero Lankao, 2006) focus on the meso- and micro-levels. The results are mixed.

Asthana (2003 & 2013), for example, employs a quantitative approach to estimate the effect of decentralised management of facilities on water supply efficiency in Madhya Pradesh and Chhattishgarh. The 2003 study uses cross-sectional data from over 1,700 state-run (centralized) and locally run (decentralised) water supply facilities. Measures of efficiency include operating expense scaled by annual production and asset utilization. Employing simple OLS estimation, decentralised provision is found to be less efficient than centralized provision. In the second study, Asthana (2013) uses panel data of just under 1,200 facilities that decentralised between 2000 and 2010. Given the data structure of this new data set, a difference-in-difference approach is used, including facility and year fixed effects to estimate the effect of decentralisation on supply efficiency, measured as previously. The findings of this analysis are in line with the previous work. However, given the more sophisticated estimation approach that allows controlling for omitted variable bias, the second study provides more robust findings. With regards to the interpretation of the results, Asthana (2013) hypothesizes that either weaker technical skills at the local level or higher levels of corruption in local bodies could explain the findings, but no conclusive evidence is provided.

Prawda (1993) analyses the efficiency effects of education decentralisation in Argentina, Chile, Mexico and Colombia and finds little evidence that decentralisation contributes to gains. The author measures efficiency by an increase in net enrolment in pre-school and primary education, a reduction in dropout and repetition rates, and as an increase in completion rates. Technically, these are measures of effectiveness, as changes in education expenditures are not considered.

Kubal (2006) presents qualitative research on the role of decentralisation on efficiency in education and health service administration in Chile. The author provides a historical analysis of the Chilean decentralisation process examining a period of three decades, and finds that following Chile's democratization starting from 1990 efficiency in decentralised service administration improved. However, the author argues that "[i]mprovements in the performance of the decentralised sectors depended on factors exogenous to the decentralisation process, such as regime type, government ideology and macroeconomic stability" (Kubal, 2006, p. 127). The case is well argued, but it is hard to assess since there is insufficient description of the methodological approach or the operationalisation of efficiency.

In short, this is an unsatisfying set of studies. The research is limited and different studies employ different definitions of efficiency. The quantitative research is of higher quality but does not attempt more than a cursory explanation of the results, and the methods employed in the qualitative studies are not adequately explained.

iii. Equity

Another smaller portion of the research on decentralisation and service delivery assesses the effect of the former on equity issues, specifically the distribution of and access to

public services provided by local governments. It is assumed that through improved accessibility and responsiveness of local governments, broader strata of citizens have the chance to request services from them local government, which will lead to more equitable service delivery.

Most studies – quantitative and qualitative – are conducted on the meso-level (e.g. Acedo et al., 2007; Faguet, 2005; Faguet & Sanchez, 2008; Geo-Jaja, 2006; Kubal, 2006; Nguyen, 2008; Noori, 2006; Phommasack et al., 2005; Wilder & Romero Lankao, 2006) with very few on the micro- (see e.g. De, 2009; Jones et al., 2007; Kristiansen & Pratikno, 2006) and on the macro-level (see e.g. Prawda, 1993; Schneider, 2003b; von Braun & Grote, 2000). The findings paint a bleak picture of the equity effects of decentralised services, generally discovering that better-off segments of the population benefit disproportionately from service improvements, while the situation of the poor in terms of access and/or usage often deteriorates even further.

On the quantitative side, De (2009) assesses inter- and intra-village equality in access to decentralised water supply, using household survey data from six villages in West Bengal (India). Conducting simple OLS regressions, the author examines the effect of socio-economic status (literacy, level of education, caste, and level of economic deprivation) on water access and the redressal of grievances related to water supply. The results indicate that within villages, people of lower socio-economic status have reduced access to water services, including redressal. A similar effect is found for poorer villages compared to more affluent ones. While the survey data approach provides a rich set of variables, the estimation approach provides only associations. Furthermore, given the set up of the model, no explicit link can be made between the decentralised nature of the services provided and the observed inequality.

On the qualitative side, Wilder and Romero Lankao (2006) provide another example of a study of equity in decentralised water provision. They conduct a number of case studies on urban and rural localities in Mexico, examining the effect of decentralisation on the equity, efficiency and sustainability of water use. They find that decentralisation, and privatization as an instrument of decentralised governance in particular, provides only marginal benefits especially with regards to equity of water access. In the Federal District for example, despite attempts to introduce a progressive system of charges, unequal access to water service, as well as de-facto regressive charges, persist. In other municipalities, fees were raised dramatically across the board in an attempt to achieve full cost-recovery. Overall, they conclude that decentralisation has so far not been able to contribute to an improvement of water services in general or to the equity of access in particular.

Geo-Jaja (2006) examines how educational decentralisation affects equity and social justice in Nigeria. The author finds that the expansion of primary education under decentralisation has resulted in a deterioration of educational quality and reinforces inequality, not least because richer families opt out of the public education system and send their children to private schools. The author also observes that “the gap between rich and poor local governments and between rich and poor households has continued to widen in educational provisions and consumption” (Geo-Jaja, 2006, p. 134). While there is some concrete evidence provided to support the line of argument, the methodological approach is not clearly explained.

b. Human conditions and livelihoods:

A limited set of studies goes beyond service delivery and tries to get at the relationship between decentralisation and changes in human conditions and livelihoods expected to result from improvements in service delivery by local governments. The majority of the research here focuses on average improvements of human conditions and livelihoods, such as higher levels of education, lower child mortality, higher rates of immunization, lower unemployment rate, or reduced environmental degradation. Some studies however also examine the distributional aspects of these improvements to assess who are the winners and losers from decentralisation reform.

i. Average improvements

Most empirical studies on this topic try to determine the average change that occurs, i.e. the overall increase in welfare from decentralisation. The vast majority of the research employs quantitative approaches, mainly impact estimation techniques, focusing on the meso- (e.g. Allcott & Ortega, 2009; Asfaw et al., 2007; Barrera, 2003; Bossert et al., 2003a; Faridi et al., 2012; Galiani et al., 2008; Hutchinson, et al., 2006; Jimenez & Sawada, 1999; King & Oezler, 2005; Lin & Zhiqiang, 2000; Neyapti, 2005; Palmer & Engel, 2007; Qiao & Martinez-Vazquez, 2007; Umansky & Vegas, 2007) and macro-level (e.g. Bird & Rodriguez, 1999; Juetting et al., 2004; Khaleghian, 2004; Lindaman & Thurmaier, 2002; Skidmore & Toya, 2013). The findings are overwhelmingly positive with only a few studies finding mixed results.

On the macro-level, for example, Lindaman and Thurmaier (2002) use OLS regression analysis to estimate the effect of fiscal decentralisation on performance of basic needs measures such as health and education. They use three different measures of fiscal decentralisation, the first one being subnational expenditures divided by total government expenditures minus national social security and military expenditures, the second one being all subnational revenues divided by total government revenues excluding international donor funds, and the third being subnational own source revenues divided by total government revenues excluding international donor funds. Drawing on data from the Human Development Indices of 1985, 1990 and 1995, they find that a 2 to 4 percent increase in fiscal decentralisation is associated with a one point increase in HDI and thus conclude that “fiscal decentralisation is helpful for attaining healthier and better-educated populations” (Lindaman & Thurmaier, 2002, p. 917). It must be noted however that, given their estimation approach, a robust causal relationship between decentralisation and improvements in human conditions cannot be assumed. More fundamentally, the issues with these types of measures of fiscal decentralisation were previously discussed.

Skidmore and Toya (2013) analyse longitudinal cross-country data using a Tobit random effects model to examine the disaster responsiveness of decentralised governments. They find that decentralised countries experience fewer casualties due to natural disasters than centralized ones. These results, however, are not well explained.

Mixed findings are presented by, among others, Khaleghian (2004), who estimates the impact of political decentralisation on child immunization using time-series data of 140 low- and middle-income countries. The author finds that among low-income countries, more decentralised ones have higher immunization rates than more centralized ones, but the effect is reversed for the middle-income group. Again however, the non-experimental approach using OLS with time effects does not permit the author to establish causation, and the results are not satisfactorily explained.

At the meso-level, a considerable number of studies report positive associations between decentralisation and changes in human conditions and livelihoods (Allcott & Ortega, 2009; Asfaw et al., 2007; Jimenez & Sawada, 1999; King & Oezler, 2005; Lin & Zhiqiang, 2000; Neyapti, 2005; Palmer & Engel, 2007; Umansky & Vegas, 2007). King and Oezler (2005) for example study the impact of an education reform programme in Nicaragua granting autonomy in administrative decisions to schools on student performance. Analysing panel data from school-household surveys and student achievement tests, they find that increases in de facto autonomy of schools are related to significant increases in student achievement. The de facto autonomy of schools is measured by the percentage of key decisions made by the school council as opposed to the central or local government. This information was collected using a questionnaire administered to school representatives such as principals or school council members. They conclude that decentralisation can result in improved learning outcomes for students in developing countries.

Asfaw et al. (2007) use a random effects model to estimate the impact of fiscal decentralisation on child mortality in rural India from 1980 to 1997. Their measure of fiscal

levels. Some of the positive effects in the quantitative models may be due to measures taken by the central government or other actors, and the qualitative approaches may be picking up local effects that get lost in more aggregate analysis. At the same time, qualitative approaches also run the risk of misattribution of cause and effect, which is sometimes difficult to retrace due to insufficient explanations of the methods used.

ii. Distribution of improvements

A few studies examining the relationship between decentralisation and human conditions and livelihoods also highlight distributional effects, i.e. on how decentralisation reform affects different subgroups within the population. While decentralisation theory does not explicitly provide for a mechanism that ensures the equitable distribution of benefits across all social strata, there is an implicit assumption in fiscal decentralisation literature that greater equalization will happen within local communities due to improved democratic conditions and increased responsiveness of local governments. This, of course, would be expected to depend on local political conditions and dynamics.

Overall the studies looking at distributional effects of decentralisation reform on human conditions and livelihoods display a pattern similar to studies on average effects: the majority of the research is conducted at the meso-level using quantitative methods (see e.g. Allcott & Ortega, 2009; Barrera, 2003; Cuellar-Marchelli, 2003; Galiani et al., 2008; Qiao & Martinez-Vazquez, 2007). The findings, however, suggested that the positive average effects of decentralisation are often unequally distributed, with most of the benefits accruing to the already better-off groups.

Galiani et al. (2008), for example, use school level panel data from Argentina to study the average and distributional effects of school decentralisation on educational quality. They use a difference-in-difference model to get at unbiased estimates. While they find a positive effect on overall student achievement, their analysis also shows that students in the poorest municipalities did not benefit from decentralisation reform.

The findings of qualitative studies (see e.g. Nyren, 2005; Oyono, 2005; Resosudarmo, 2004) raise similar concerns regarding the distributional effects of decentralisation. Oyono (2005), for example, studies the impact of Cameroon's decentralisation of forest management on local-level outcomes. The author concludes that transferring decision-making powers over forest management to local communities has resulted in increased internal conflict and "a new social stratification" (Oyono, 2005, p. 317), through the emergence of a new local elite. This elite, which draws its authority not from a traditional mandate granted by the community but from an institutional one granted by the central government, marginalizes other groups in the community leading to social distortions and conflict.

In short, the research on distributional effects of decentralisation on human conditions and livelihoods remains limited. What is available, however, provides some indication that this is an important weak point in the materialization of the expected benefits of decentralisation on the ground and merits further investigation.

c. Governance

Another set of studies examines the role of decentralisation in influencing governance, including public participation and inclusion of vulnerable groups, transparency and accountability, democratization and democratic stability, and resource allocation. A number of these studies focus exclusively on governance, while others are somewhat broader, including a few studies already cited above in reference to other outcomes. While some of the literature considers governance outcomes as ends in themselves (e.g. Bienen et al., 1990; Blunt & Turner, 2005; De Mello & Barenstein, 2001; Heller, 2001), others view them as intermediate outcomes of decentralisation on the road to improved service delivery (e.g. Bratton, 2012; Gershberg et al., 2009; Golooba-Mutebi, 2005; Jones et al., 2007; Asthana,

decentralisation constitutes an index composed of the share of Panchayats in the total state expenditure, the total Panchayats' expenditure per rural population, and the share of Panchayats' own revenue in the total Panchayats' expenditure, measures that, as noted above, can be called into question. It is composed using factor analysis. They find that fiscal decentralisation has a statistically significantly negative effect on rural child mortality and that this effect is robust across several alternative specifications. They also find that the effect of fiscal decentralisation is considerably hampered in states where political decentralisation is low.

Other meso-level studies also find mixed results with regards to the association between decentralisation and changes in human conditions and livelihoods (Barrera, 2003; Bossert et al., 2003a; Faridi et al., 2012; Galiani et al., 2008; Hutchinson, et al., 2006; Qiao & Martinez-Vazquez, 2007). Barrera (2003) uses panel data from 1990 to 1999 and a quasi-experimental approach to study the relationship between decentralisation and educational outcomes in Colombia. Estimating three models with different comparison groups, he concludes from the first two, that decentralisation has a positive effect on student performance. However, the third, most sophisticated model including nation-wide effects and public school effects yields a negative effect.

Faridi et al. (2012) use time-series modelling to study the effect of fiscal decentralisation on indicators of economic performance in Pakistan. They use two measures of fiscal decentralisation, i.e. the ratio of sub-national government revenues to total national government revenues as well as the ratio of sub-national government expenditures to total government expenditures. The authors find that while fiscal decentralisation seems to have a positive effect on employment generation, it discourages the increase of nominal wages, contributing to rising inflation.

It is noticeable that the quantitative studies reviewed paint a rather affirmative picture of relationship between decentralisation and human conditions and livelihoods. This is in contrast to the qualitative studies (Crawford, 2008; Crook & Sverrisson, 1999; Juetting et al., 2004; Lund & Treue, 2008; McCarthy, 2004; Mearns, 2004; Nyren, 2005; Oyono, 2005; Resosudarmo, 2004), which, while less numerous, present predominantly negative findings (Crawford, 2008; McCarthy, 2004; Mearns, 2004; Oyono, 2005; Resosudarmo, 2004). At the meso-level, for example, Crawford (2008) studies the impact of decentralisation in Ghana on poverty alleviation and concludes that, even though the decline of poverty levels in Ghana roughly coincides with the introduction of decentralisation, the latter cannot be considered to be causal. The author states that decentralisation "has let to [only] limited improvements in access to basic social services" (p. 254), and has had no effect on household income levels. Instead, significant improvements of people's living conditions either resulted from measures led by the central government, such as investment in large scale infrastructure or pest control, or were due to international market mechanisms, i.e. increases in agricultural commodity prices. Mearns (2004) studies the effect of decentralisation on pastoral livelihoods and the environment in Mongolia, and finds that the reform has had adverse consequences, such as increasing vulnerability of pastoralists due to the elimination of "long-standing forms of dual formal/informal regulation of pasture-land management" (p. 148) under decentralised governance.

The discrepancy between the findings of quantitative and qualitative studies cannot be definitively explained. Some of it is simply the diversity of the phenomena being examined, and some it may result from issues with the robustness of the research design and methodology used for the quantitative research approaches. Some of these studies might be erroneously attributing effects of other reform dynamics to decentralisation. There also appear to be serious problems with how certain variables are measured, e.g. the definition of fiscal decentralisation as the share of revenues and/or expenditures accounted for by local governments. While these are fairly common measures, they can be criticized for being rather crude and poorly capturing the true extent and quality of fiscal decentralisation, especially failing to reflect core requirements of decentralisation, such as autonomy and accountability

2008). A few studies look at a range of governance outcomes, notably the Faguet (2012) mixed methods study of Bolivia.

i. Participation and inclusion

A large share of studies examining the effect of decentralisation efforts on governance outcomes focuses on how decentralisation affects public participation and the inclusion of vulnerable or formerly excluded groups. The expectation here is that devolving decision-making power to local governments will allow citizens to take part in decision-making processes and increase engagement with local government.

The majority of the literature on the empirical relationship between decentralisation and participation uses qualitative methods (see e.g. Bienen, 1990; Blunt & Turner, 2005; Crook & Sverrisson, 1999; Dauda, 2004; De Grauwe et al., 2005; Gershberg et al., 2009; Golooba-Mutebi, 2005; Heller, 2001; Jones et al., 2007; Maro, 1990; Rivarola & Fuller, 1999; Rowland, 2001; Sayed et al., 2005; Therkildsen, 2000; Wunsch & Olowu, 1996) but a few studies take a quantitative approach (see e.g. Agrawal & Gupta, 2005; Chapman et al., 2002; Mankoe et al., 1994). Among the qualitative studies, most focus their analysis on the meso- or micro-level. Here, studies conducted at the meso-level generally find that decentralisation does not improve citizen participation or inclusion of vulnerable groups overall (Bienen, 1990; Blunt & Turner, 2005; Gershberg et al., 2009; Golooba-Mutebi, 2005; Maro, 1990; Rowland, 2001; Therkildsen, 2000; Wunsch & Olowu, 1996).

Bienen et al. (1990), for example, study local participation within the framework of Nepal's decentralisation. They find that despite increasing local participation in planning and implementation of development strategies being stated as an explicit objective of the reform, active participation of citizens in meetings is minimal and largely controlled and dominated by local elites and government employees. Golooba-Mutebi (2005) conducts ethnographic research on popular participation in the health sector in Uganda and finds that in the absence of a participatory political culture, citizens lack the trust and interest to get involved in local government decision-making, even though the opportunity exists. Instead they revert to private health service providers who do not offer opportunities for participation but provide better services. Gershberg et al. (2009) compare two community-based reform models in the education sector in Guatemala that differ in the extent to which they allow for parental involvement in school planning and decision-making. They find that schools that give greater authority to parents struggle more with providing effective human resource management. Furthermore, the authors observe a lack of female participation, in particular from indigenous women who tend to understand their participating role as preparing meals during school meetings rather than getting actively involved in school management. While many of these qualitative micro studies rely on first hand observations of patterns of local citizen participation, the sampling of these moments of observation is often based on researchers' access and convenience, which might distort the findings and conclusions drawn, in particular when only few observations can be conducted.

Studies that focus on the micro-level, however, occasionally report positive effects on citizen participation (see e.g. Dauda, 2004; Heller, 2001; Jones et al., 2007). Dauda (2004) for example studies Parent-Teacher-Associations in Jinja, the second largest city in Uganda, and finds that the imposition of school fees provides a strong incentive for parents to take responsibilities in school management and hold local government accountable. Examining user committees in the health and education sectors in Andhra Pradesh, Jones et al. (2007) find that the committees enabled a broad cross-section of villagers to participate in the steering of public services. Some committee members reported feeling "a sense of entitlement and the right to question school authorities, and even potentially government officials" (Jones et al., 2007, p. 216). Despite these promising insights, the authors report that institutional and human capacity challenges impede the effectiveness of the committees.

The quantitative studies, although much less prevalent, paint a similar picture (see e.g. Agrawal & Gupta, 2005; Chapman, 2002; Mankoe & Maynes, 1994). At the meso-level,

Agrawal and Gupta (2005) conduct a statistical analysis of user groups participating in the management of protected areas in Nepal's Terai. Their findings are derived from household survey data collected following the IFRI⁴⁷ methodology and analysed using an ordered probit model due to the ordinal, skewed nature of the dependent variable. They find that participatory forums are being captured by elites, a process that prevents the integration of poor and socially marginalized groups.

At the micro-level, Mankoe and Maynes (1994) analyse survey data from educational stakeholders in 6 districts in central Ghana. They conduct a discrepancy analysis to assess the differences between stakeholders' perceptions of their actual level of involvement in school-level decision-making on the one hand, and their preferred level of involvement on the other. They find that while spaces for participation have started to be recognized, the stakeholders do not feel sufficient levels of empowerment and ownership.

This greater variation in the findings at the micro-level makes sense when one accepts the premise that the successful implementation of participatory mechanisms hinges on a multitude of highly context-specific factors that can vary not only by country, but also by region or even small locality. Episodes of successful participation do exist, even though they might be hidden among a host of failed attempts. Overall, it seems that there has not been enough effort to carefully construct analyses of a range of episodes of successful participation and determine what differentiates them from cases where participation encountered more challenges.

ii. Transparency and accountability

A smaller part of the empirical literature on the role of decentralisation on governance outcomes specifically looks at the effect of decentralisation efforts on transparency and accountability of local governments vis-à-vis its citizens. While the older theoretical literature implicitly assumed transparency and accountability at the local level will emerge almost automatically once decision-making power was devolved to lower level governments, the more recent conceptual work acknowledges that these mechanisms, while being essential for the functioning of a decentralised system, cannot be taken for granted and require specific institutional arrangements and policies.⁴⁸ Nonetheless, effective decentralisation efforts are expected to lead to greater transparency and accountability at the local level.

Empirical studies examining transparency and accountability as outcomes of decentralisation employ both quantitative and qualitative methods and are located at all levels (see e.g. Asthana, 2008; Bienen et al., 1990; Bratton, 2012; De Grauwe et al., 2005; De Mello & Barenstein, 2001; Gershberg et al., 2009; Lund & Treue, 2008). The findings of these studies however generally do not provide a clear picture of the real-world relationship between decentralisation and these governance outcomes.

At the macro-level, Bratton (2012) for example uses survey data from the Afrobarometer to gain a better understanding of citizen perceptions of local government responsiveness in countries in Sub-Saharan Africa. In the largely descriptive analysis, the findings indicate great variability in the perception of local government responsiveness, which is understood to be akin to political accountability, across African countries. The author draws on cross-county variations in social characteristics, political attitudes and political behaviours to explain the variability in perceptions of local government responsiveness. There is not, however, an attempt to explain this diversity by variations in the form and level of decentralisation.

De Mello and Barenstein (2001) use a cross-country data set of 78 countries to analyse the relationship between fiscal decentralisation and the financing of subnational expenditures on the one hand, and several governance indicators, such as voice and

⁴⁷ IFRI stands for International Forests Resources and Institutions programme initially developed by researchers at the University of Indiana.

⁴⁸ See, for example, the literature on second-generation fiscal federalism, e.g. Oates, 2005; Weingast, 2009.

accountability, on the other. While the authors find a positive association between fiscal decentralisation and governance overall, the specific relationship to voice and accountability is statistically insignificant in all regressions (De Mello & Barenstein, 2001). With regards to how the governance indicators were quantified, the authors refer to indices constructed by other researchers using unobserved component modelling to combine information from various subjective instruments, such as perception and opinion surveys conducted in the various countries.⁴⁹

At the meso- and micro-level, the results are also not clear-cut (Asthana, 2008; Bienen et al., 1990; De Grauwe et al., 2005; Gershberg et al., 2009; Lund & Treue, 2008). De Grauwe et al. (2005) for example, draw on qualitative research on decentralisation in the education sector from Benin, Guinea, Mali, and Senegal and find that the implementation of accountability frameworks was often met with serious resistance from the administration at the central and local level. They do, however, also report some successful initiatives, such as a reorganisation of quality monitoring that relies on peer networks of teachers. Asthana (2008) studies how decentralisation affects corruption, which conceptually can be understood as a result of limited transparency and accountability. The author uses data from two Indian states, Madhya Pradesh and Chhattishgarh, to estimate the relationship between decentralisation and corruption in water supply agencies. He finds levels of corruption in locally managed agencies to be significantly higher than in agencies run by the state governments. In their in-depth qualitative study of the decentralised forest management of the Miombo woodlands in Tanzania, Lund and Treue (2008) find some evidence for nascent accountability mechanisms in an otherwise non-accountable system. These however appear to be working horizontally, e.g. village leaders being accountable to other village leaders, rather than vertically towards village members.

iii. Resource allocation

Some of the empirical literature also examines shifts in resource allocation under decentralisation. A core normative argument in favour of decentralisation is that allowing allocation decisions to be taken closer to the beneficiaries will result in improved resource allocation. Compared to the literature reviewed in the above section on service delivery efficiency, the studies covered here focus on the allocation of resources among uses.

Given the nature of this outcome, the overwhelming majority of the studies on the effect of decentralisation on resource allocation employ quantitative methods at the meso-level (see e.g. Akin et al., 2005; Bahl & Wallace, 2006; Bardhan & Mookherjee, 2006; Bonet, 2006; Bossert et al., 2003; Faguet, 2004; Hernandez-Trillo & Jarillo-Rabling, 2008; Lewis, 2005). The results of the studies vary.

A number of studies find that counter to expectations, decentralisation has not contributed to the improvement of resource allocation (see e.g. Akin et al., 2005; Bardhan & Mookherjee, 2006; Bonet, 2006; Hernandez-Trillo & Jarillo-Rabling, 2008). Akin et al. (2005) for example use local government budgeting data from Uganda to analyse whether decentralisation leads to greater allocative efficiency in the health sector. They find that under decentralisation, decision-makers spent a declining share of the local health budget on public goods provision such as sanitation and mosquito control, in favour of private goods provision such as curative care. Furthermore they observe districts taking advantage of spillover effects and free riding on the health budgets of their neighbours.

Other studies however report more promising results (e.g. Bahl & Wallace, 2006; Bossert et al., 2003; Faguet, 2004; Lewis, 2005). Modelling budget allocations pre- and post-decentralisation in Indonesia, Lewis (2005) finds that under decentralisation, local governments are partly responsive to needs of the local population e.g. by allocating more funds to poverty alleviation measures. However, he also finds possible evidence for elite capture in the form of increases in spending on administrative overheads. Faguet (2004), who

⁴⁹ See Kaufmann, Kraay & Zoido-Lobaton, 1999a & 1999b for more detail.

examines the effect of decentralisation on public investment in Bolivia, finds strong positive results. He finds that municipal investment patterns significantly shifted towards human capital and social services, which he reports to be in line with objective indicators of need. Of course in both of these cases, there are may be issues for debate—e.g. even if these allocations are more responsive to local people’s immediate needs, are expenditures that target poverty reduction and social services most beneficial for longer term development?

Some of the studies not only evaluate resource allocation shifts under decentralisation but also look at equity and distributional effects of changes in resources allocation, the results of which generally raise some cause for concern (e.g. Bardhan & Mookherjee, 2006; Bonet, 2006; Hernandez-Trillo & Jarillo-Rabling, 2008). Bardhan and Mookherjee (2006) for example study within- and between-village allocations of resources using a longitudinal sample of 89 villages in West Bengal and find that, while poverty, land inequality, and low caste composition lead to only marginal adverse effects on within-village resource allocation to the poor, these poverty indicators were strongly adversely associated with between-village resource allocation. This means that while they find little evidence for elite capture within communities, higher-level governments were providing significantly fewer resources to poorer villages than to richer ones.

Overall, the role of decentralisation on resource allocation is complex and it seems to be highly dependent on political, institutional and socio-economic context. Factors affecting this and other governance outcomes were outlined above, and selected discussion of empirical literature will be provided below. While the methodological concentration of empirical research on quantitative studies at the meso-level suggests that this approach is promising in understanding this relationship, there is a lack of qualitative micro-level research that might help to unpack the rationales and mechanisms underlying the allocation decisions.

Looking at effect of decentralisation on governance outcomes on the whole, the results are very mixed. While islands of good performance can be identified, many studies reveal more weaknesses than strengths. This could mean that the theories guiding decentralisation need to be refined, but this would need to be approached inductively by further analysing and learning from real-world experiences with the implementation of decentralisation in a variety of contexts.

iv. Conflict reduction

There is some general literature on decentralisation in post-conflict environments, but very few of the reviewed studies explicitly address this issue of systematically.⁵⁰ While proponents of decentralisation of post-conflict settings argue that decentralisation can contribute to a reduction of conflict by increasing opportunities for participation and inclusion and opening avenues for self-governance, the counter-argument is that decentralisation might lead to increased conflict through reinforcing regional inequalities, and a few instances of this were cited above.

Brancati (2006) studies the effect of political decentralisation on ethnic conflict and secessionism using a longitudinal dataset of 30 democracies – both developed and developing countries – from 1985 to 2000 attempting to explain the differential success of decentralisation in reducing conflict in different countries. The author uses an ordered logit estimation approach to measure the effect of decentralisation on different levels of anti-regime rebellion and inter-communal conflict. Political decentralisation is measured with a dichotomous variable, as well as a 4 and 5 stage index assessing the extent of decentralisation based on the extent to which sub-national legislatures have authority over taxes, education and public order. The conclusion from the analysis is that both mechanisms are at play: While on the one hand decentralisation can dampen ethnic conflict and secessionisms directly by

⁵⁰ Examples of more general literature include: Fox (2007), Jackson and Scott (2008), Searle (2008).

bringing government closer to the people, it can also foment it indirectly by establishing the formation of regional parties that might drive a secessionist agenda.

Annex 4 - Factors Underlying Decentralisation Performance

Many studies examining the role of decentralisation on development outcomes focus not only the outcome variables, the focus of the preceding section, but also try to establish what specific aspects of decentralisation and related reforms affect these outcomes, and in what ways and under which conditions decentralisation can unfold successfully. A number of the studies already discussed above also comment on these issues, and some of them will also be referred to again in this section. There are in fact a large number of diverse studies that deal with these issues to some extent, again highly uneven, and it is only possible to provide an overall sense of them here.

Generally the studies using qualitative approaches tend to put more emphasis on these underlying factors, as their stronger contextualization and process orientation lends itself more to exploring these issues, and it very hard to quantify some of the important variables. Broadly speaking, determinants and aspects of decentralisation can be grouped into contextual, institutional, political economy, and capacity issues.

a. Socioeconomic contextual issues

A fair number of studies discuss socio-political context as one of the factors affecting the shape and form of decentralisation and its ability to yield positive development outcomes (e.g. Blunt & Turner, 2005; Crawford, 2008; Crook & Sverrisson, 1999; Dinar et al., 2007; Golooba-Mutebi, 2005; Khaleghian, 2004; Kubal, 2006; Lin & Liu, 2000; Ntsebeza, 2004; Rivarola & Fuller, 1999; Rowland, 2001; Ryan, 2004, Wunsch & Olowu, 1996). The majority of these studies employ qualitative approaches at the meso-level (see e.g. Blunt & Turner, 2005; Crawford, 2008; Golooba-Mutebi, 2005; Kubal, 2006; Ntsebeza, 2004; Rowland, 2001; Ryan, 2004, Wunsch & Olowu, 1996).

Some studies (e.g. Blunt & Turner, 2005; Golooba-Mutebi, 2005; Ntsebeza, 2004) argue that without the existence of a participatory political culture in society at large, the mechanisms for popular participation in local decision-making, necessary for decentralisation to work, remain hollow and ineffective. In his case study of the decentralised health sector in Uganda, Golooba-Mutebi (2005) for example states that “participation does not come about simply because opportunities for it exist” (p. 179) but that citizens’ interest and a participatory culture need to be fostered for participatory mechanisms to work. Ntsebeza (2004), discussing the case of South Africa, takes a more conservative stance, arguing that “decentralisation with its insistence of elected representatives, is incompatible with the recognition of a hereditary institution of traditional leadership” (p.87). Blunt and Turner (2005) argue that in post-conflict settings like Cambodia, the tremendous lack of general citizen trust, in government institutions in particular, stems from years of oppression, abuse, and violence, constituting an enormous hurdle to citizen participation and engagement with local government.

This latter example also points to another argument relating to socio-political context, namely that decentralisation requires a democratic framework to function properly (e.g. Khaleghian, 2004; Kubal, 2006; Ntsebeza, 2004; Ryan, 2004). Kubal (2006), for example, studies the evolution of the decentralisation in the health and education sector in Chile and finds that decentralised service provision in health and education improved significantly with Chile’s transition to democracy following the end of the Pinochet regime. This, of course, need not always be the case—service delivery can also be good, at least for periods of time, under less democratic regimes, such as periods of the Suharto regime in Indonesia and the Moi regime in Kenya. The situation in Chile might also be explained by differences between the economic priorities of Pinochet and the democratic regime that replaced it.

Finally, some evidence points to the level of a country’s economic and institutional development playing a role in the effective unfolding of decentralisation. In his macro-level

quantitative analysis, for example, Khaleghian (2004) conducts a subgroup analysis of low-income and middle-income countries and finds that, decentralisation in low-income countries on average results in higher immunization rates, while decentralised systems are associated with lower immunization rates in middle-income countries. Given the high level of aggregation of the study however, this effect might mask other institutional or political economy factors that correlate with economic development. Juetting et al. (2004) provide a comprehensive macro-analysis of 19 country case studies examining the link between decentralisation and poverty alleviation. They conclude that in countries where the central government is not able to perform its basic functions due to weak institutions or political conflict, decentralisation could make matters worse with regards to poverty alleviation. In countries with reasonably well performing central governments, decentralisation can result in better pro-poor service delivery.

b. Institutional issues

A large number of studies identify institutional issues as main factors affecting the ability of decentralisation reform to deliver on its promised outcomes. Here, the label “institutional” can denote a variety of issues that range from the overall governmental framework to spaces of interaction between citizens and local governments. Some of the institutional issues reflected in the literature will be discussed under the broad heading of general institutional design, and then shorter subsections focus on two more specific aspects of institutional design, i.e. local financial resources, and mechanisms for accountability and transparency, which receive attention in the literature.

i. General institutional design

A lot of the research on decentralisation and development outcomes identifies institutional design as one of the major bottlenecks to effective decentralisation. The majority of the studies are conducted qualitatively at the meso-level (e.g. Agrawal & Ostrom, 2001; Bienen et al., 1990; Blunt & Turner, 2005; Gershberg et al., 2009; Kahkonen & Lanyi, 2001; Kubal, 2006; McCarthy, 2004; Mearns, 2004; Narayana, 2005; Noori, 2006; Phommasack et al., 2005; Rowland, 2001; Ryan, 2004; Way, 2002; Wittman & Geisler, 2005; Wunsch & Olowu, 1996), and micro-level (e.g. Benjamin, 2008; Mubyazi et al., 2004; Nygren, 2005). A few studies at the meso-level also employ quantitative methods (e.g. Andersson, 2004; Andersson & Gibson, 2006; Bossert et al., 2003; Guess, 2007; Nath & Schroeder, 2007).

The research findings reveal two types of institutional design issues: One refers to the design of intergovernmental institutions and explains the performance of decentralisation reforms by the kind of functions and responsibilities that are being decentralised to lower level governments (e.g. Agrawal & Ostrom, 2001; Booth, 2010; Gershberg et al., 2009; Guess, 2007; Mubyazi et al., 2004; Phommasack et al., 2005; Ryan, 2004; Way, 2002; Wittman & Geisler, 2005). Mubyazi et al. (2004), for example, find that the devolution of financial, planning and managerial authority to district governments in the Tanzanian health sector is incomplete at best, resulting in district health plans reflecting national and donor priorities rather than local needs. Also, while district councils were given the authority to hire and fire medical staff, medical equipment and drugs continued to be purchased at the national level without local involvement. Furthermore, a number of vertical programmes continued to operate outside the district health budgets and under full control of the central government. These and other inconsistencies resulted in the fragmentation and subpar performance of the local health system.

Ryan (2004) argues that effective decentralisation not only depends on what kind of functions, finances and capacities are being transferred to local governments, but also in what order and within what time frame this transfer happens. In a study on Costa Rica, the author finds that according to the recent local government transfer law, “no functions will be transferred until capacity is demonstrated, and no finances will be transferred until functions have been assumed” (Ryan, 2004, p. 86). This sequencing of decentralisation seems flawed as

it is unclear how capacity can be built without any responsibilities or resources to build it on, raising larger issues about implementation strategy.

The second type of institutional design issues refers to the performance of local-level institutions and their effectiveness in using their autonomy from central government to improve development outcomes (e.g. Andersson, 2004; Andersson & Gibson, 2006; Benjamin, 2008; Booth, 2010; Dinar et al., 2007; Mearns, 2004; Wunsch & Olowu, 1996). Benjamin (2008) for example studies the dualism of modern legal institutions and traditional community institutions in decentralised natural resource management in Mali and finds that “crafting workable relationships between communities and local government requires a pragmatic approach to negotiating and institutionalizing political space for innovation in self-governance” (Benjamin, 2008, p. 2255). Locally negotiated agreements - “local conventions” - as found in some villages in Mali for example, can set an arena for dialogue and collective decision making among local stakeholders.

Booth (2010) provides a number of different examples of (dys-)functional local institutions. In Malawi for example overlapping mandates between local stakeholders result in unclear responsibilities and weak coordination. In Uganda, local administrators and politicians are unable to effectively monitor service provision by local health centres due to the fact that health districts do not coincide geographically with administrative districts. These and other incidences of institutional incoherence at the local level have an adverse bearing on the effective functioning of decentralisation in those countries.

ii. Local financial resources

Some of the studies examining the relationship between decentralisation and development outcomes point to the local government financial resource endowment as one determinant of effective decentralisation. As for the previously discussed institutional factors, qualitative studies have the most to contribute in terms of unpacking the performance-relevant aspects of decentralisation (Bird and Rodriguez, 1999; Braathen et al., 2006; Geo-Jaja, 2006; Gideon, 2001; Gomez, 2008; Jeppsson, 2001; Kivumbi et al., 2004; Kubal, 2006; 2004; Mearns, 2004; Robinson & Stiedl, 2001; Wunsch & Olowu, 1996). However, given the easily quantifiable nature of revenue yields, a number of quantitative studies also provide some helpful insights (Acedo et al., 2007; Bossert et al., 2003; De Mello & Barenstein, 2001; Dinar et al., 2007; Faguet, 2005; Guess, 2007; Mankoe & Maynes, 1994).

While some of the research focuses on intergovernmental fiscal transfers as main revenue source of local governments (e.g. Bird and Rodriguez, 1999; Dinar et al., 2007; Gideon, 2001; Gomez, 2008; Jeppsson, 2001; Kubal, 2006; Robinson & Stiedl, 2001), others put more emphasis on local own source revenue (Bossert et al., 2003; Braathen et al., 2005; Faguet, 2005; Geo-Jaja, 2006; Mearns, 2004; Robinson & Stiedl, 2001). For both revenue sources, the main points of discussion revolve around insufficient assignment and/or insufficient receipts.

Geo-Jaja (2006) for example studies the role of decentralisation in the education sector on equity and social justice. After a critical assessment of the situation in Nigeria (discussed above), the author concludes that a key factor in the negative influence that decentralisation has had on education equality is the failure to fund levels of education spending sufficiently to ensure that quality can keep up with enrolment, and the weak efforts of local governments to secure greater tax revenues.

Studying 83 river basins worldwide, Dinar et al. (2007) examine determinants of effective decentralisation in water resource management. The authors analyse survey data provided by decentralised river basin organisations (RBOs) on contextual factors and initial conditions, characteristics of the decentralisation process, characteristics of the capacities and relationships between the central governments and the decentralised RBOs, and the institutional arrangements at the basin level. They find that decentralisation success is positively associated with the share of central government funding, and the share of users

paying tariffs, and conclude that an effective functioning of decentralised river basin management can work when revenues generated from user fees benefit the river basin directly, and central government provides sufficient unconditional funding so that local stakeholders can freely decide on resource allocation.

Robinson & Stiedl (2001) examine decentralisation of road administration in Nepal, Uganda and Zambia. They trace back some of their negative findings to the lack of financial resources for this sector at the local levels. In all three countries local governments receive the vast majority of their funds from central government. This situation will most likely not change in the near future as even if the local governments were assigned more revenue sources, widespread rural poverty in these countries would result in meagre yields. Transfers from the centre however are volatile and do not even cover the needs for investment and maintenance.

iii. Mechanisms for transparency and accountability

A number of studies look specifically at institutional mechanisms for local transparency and accountability. Qualitative studies discussing this issue are again in the majority (Agrawal & Ostrom, 2001; Booth, 2010; De Grauwe et al., 2005; De Oliveira, 2002; Gershberg et al., 2009; Gideon, 2001; Kubal, 2006; Mearns, 2004; Mohmand & Cheema, 2007; Noori, 2006; Nygren, 2005; Oyono, 2005; Robinson & Stiedl, 2001; Ryan, 2004; Therkildsen, 2000; Wunsch & Olowu, 1996; Xu & Ribot, 2004), but especially at the meso-level, there are also a few quantitative studies that examine accountability mechanisms as determinants of effective decentralisation (Eckardt, 2008; Hernandez-Trillo & Jarillo-Rabling, 2008; King & Oezler, 2005; Kristiansen & Pratikno, 2006; Neyapti, 2005). The vast majority of the studies understand accountability as downward accountability towards the citizens – either directly or indirectly through local councils. Upward accountability towards higher-level government agencies is rarely addressed or explicitly understood as a type of accountability that can effectively strengthen local autonomy, although there is some work on this in the literature on public financial management and service delivery.

De Grauwe et al. (2005), for example, look at the effect of decentralisation on school improvements across several Sub-Saharan African countries and find ineffective accountability mechanisms to be one of the major obstacles to improving decentralised educational systems. According to their research, none of the countries they studied had effective accountability and transparency mechanisms set up to complement the increases in local autonomy due to decentralisation. For example information about performance of schools or their usage of funds is rarely publicly available. Trying to change this practice however seems to meet serious resistance from current power holders, thus a purely technical solution will not likely improve the situation. Without strong local accountability mechanisms however, inefficiency and mismanagement in the local education sector should be expected to persist.

Eckardt (2008) uses a quantitative approach to identify factors explaining differential performance in local government service provision in Indonesia, finding strong support for the hypothesis that political accountability of local governments results in improved services. Several indicators derived from household surveys and local government data are used to assess the extent of local accountability. These include the intensity of political competition across districts measured by the party fragmentation of the local councils, the functioning of legislative oversight measured by the prevalence of corruption as perceived by households, the access to information measured by the extent to which households follow process and outcomes of local elections, and the participation of the community in public activities measured by the percentage of households attending health planning meetings. Performance improvements of local public service provision are captured in a service satisfaction index, based on household perceptions of changes in quality of public service delivery after decentralisation. While the results are robust across different specifications supporting the

link between downward accountability and local public service delivery, these results could be driven by other factors as well.

Mohmand & Cheema (2007) examine the extent to which decentralisation reform in Pakistan has been able to redress accountability failures of previously centralized service delivery. They report that the previous centralised system in was characterized by a complete lack of accountability towards citizens due to large distances between providers and users, bureaucratisation of service delivery and political clientelism. The decentralisation reform explicitly intended to overcome these issues by introducing new stakeholders into the historically entrenched system of political interests, providing marginalised groups such as women and peasants access to political decision-making, and creating a stronger line of accountability between local politicians and their constituencies. They find however, that despite this explicit intention, accountability failures and subsequent poor service provision prevail under decentralisation. Service improvements were only observed for certain targeted services such as sanitation and sewerage and occurred almost entirely in the home villages of the local elected representatives, rendering proof of the survival of clientelist structures and elite capture in decentralised service delivery.

c. Political economy issues

Another set of factors affecting the performance of decentralisation and its ability to contribute to an improvement of development outcomes can be subsumed under heading of political economy issues. As previously discussed, a range of political economy considerations can affect decentralisation, from the initial forces that shape the decision to decentralise to the incentives and behaviours that influence how decentralisation is implemented. Most of the empirical literature on this topic focuses on the politics of interest, such that stakeholders overtly or covertly use or even manipulate institutions and governance structures in pursuit of their own political agenda or personal benefit. The literature identifies political economy issues impacting the effectiveness of decentralisation policy in the relationship between central government and local-level entities as well as in the relationships among different local-level actors, such as e.g. local governments and citizens.

i. Central-local relationships

A number of studies relate the presence of political economy issues in the relationship between the national/regional level and local level governments to the malfunctioning of decentralisation (e.g. Agrawal & Ribot, 1999; Blunt & Turner, 2005; Bonet, 2006; Crawford, 2008; Faguet, 2005; Hernandez-Trillo & Jarillo-Rabling, 2008; Juetting et al., 2004; Khaleghian, 2004; Robinson & Stiedl, 2001; Wild et al., 2012; Wittman & Geisler, 2005). The majority of these studies employ qualitative methods at the meso- and macro-level (e.g. Agrawal & Ribot, 1999; Blunt & Turner, 2005; Crawford, 2008; Juetting et al., 2004; Robinson & Stiedl, 2001; Wild et al., 2012; Wittman & Geisler, 2005).

Agrawal & Ribot (1999) in their study on decentralised forest management in South Asia and West Africa, for example, argue that central governments are usually not genuinely interested in increasing the autonomy of local governments. Instead, “[g]overnments often perform acts of decentralisation as theatre pieces to impress or appease international donors and nongovernmental institutions (NGOs) or domestic constituencies”. (Agrawal & Ribot, 1999, p. 474). They find for example, that in none of the cases they analysed, central governments were unwilling to give up control over commercially valuable forestry products to local governments – control that would have contributed to veritable empowerment of local actors.

In their assessment of the decentralisation process in Cambodia, Blunt & Turner (2005) reach a similar conclusion. They state that the faltering of decentralisation in the post-conflict country is partly due to “a lack of real political enthusiasm for the idea” (Blunt & Turner, 2005, p. 75) Instead the central government seems more interested in using

decentralisation reform as a tool for consolidating political party interests and other pragmatic political short-term gains.

Using decentralisation to strengthen the incumbent political party at the centre is also observed by Hernandez-Trillo and Jarillo-Rabbling (2008) in their study of fiscal decentralisation in Mexico. They find that allocation of intergovernmental transfers to local governments is highly discretionary depending on the distribution of voters: areas with more voters and a higher number of swing voters receive more funds. As a result, the poorest localities receive the least financial resources from the centre aggravating inequality and fiscal disparities across local governments.

ii. Local dynamics

Other research points to political economy issues within the communities, i.e. between local-level actors such as local administration, councils, NGOs, teachers, PTA members etc. as contributing to frictions impeding the effectiveness of decentralised governance. Here again qualitative studies clearly dominate (e.g. Benjamin, 2008; Bienen et al., 1990; De Grauwe, et al., 2005; De Oliveira, 2002; Larson, 2002; Narayana, 2005; Resosudarmo, 2004; Ryan, 2004; Sayed & Soudin, 2005; Wild et al., 2012; Workman, 2011), while quantitative approaches are in the minority (see e.g. Andersson & Gibson, 2006; Bardhan & Mookherjee, 2006; Faguet, 2005; Khaleghian, 2004; Lewis, 2005).

A few studies identify elite capture, i.e. the skimming off of public resources by influential community members as a problematic issue (see e.g. Bardhan & Mookherjee, 2006; Bienen et al., 1990; Ryan, 2004). Bienen et al. (1990), in their assessment of the Nepalese decentralisation reform for example find evidence for elite capture. Public participation at the district panchayat level is largely controlled by government employees and better-off citizens. At the lower levels of the panchayat system, in particular at the village and ward level, wealthy farmers usurp available resources to their benefit, cutting off the poor from any development intervention.

Narayana (2005) studies a mechanism intended to countervail the dominance and usurpation of resources by local elites in three Indian states. The mechanism introduces quotas for marginalized groups, such as women and members of lower castes, in local self-government institutions. The author finds, however, that quotas alone need not increase participation of marginalized groups. In addition, political mobilization through political parties and strong networks of NGOs and self-help groups seem to be necessary to provide adequate support and empowerment so that the poor and disadvantaged can effectively assume their role in local self-government.

Another within-community dynamic affecting the effectiveness of decentralisation in delivering on development outcomes is described by Workman (2011), who examines coproductive relationships between local councils and interest-based organisations in Sierra Leone. The author compares two co-production arrangements for public service delivery, waste management in the market and supervised slaughtering in the slaughterhouse, and finds that the establishment of a reciprocal exchange relationship between the actors strongly influences the quality of public goods provision. In particular, coproduction is more likely to succeed when both parties are aware of their mutual dependence, when the institutional arrangement allows for immediate observation of the respective inputs and sanctioning of failure to provide the expected contribution, and when regulatory mechanisms are in place to reduce free-riding by members of interest-based associations.

d. Capacity issues

Finally, another part of the empirical literature identifies local capacity issues as a major bottleneck to decentralisation improving development outcomes. Here, the studies find that appropriate capacity, in terms of organisation as well as human resources, is necessary for both local government and citizens. Local governments require the capacity to effectively

assume their roles and responsibilities under decentralisation, and local residents need to be able to productively engage with their local governments and hold them accountable.

A number of studies assess the capacity of local governments and local government staff and its relevance for an effective functioning of decentralised governance (Asthana, 2013; Bird & Rodriguez, 1999; Bonet, 2006; Conyers, 2003; De, 2009; Gomez, 2008; Guess, 2007; Juetting et al., 2004; Kivumbi et al., 2004; Larson, 2002; Mankoe & Maynes, 1994; Phommasack et al., 2005; Rhoten, 2000; Robinson & Stiedl, 2001; Satria & Matsida, 2004; Way, 2002). Again, qualitative studies are in the majority

Bird and Rodriguez (1999) in their review of international experiences with decentralisation and poverty alleviation raise several issues related to local government capacity to deliver public services. They indicate that underfunding and overstaffing of local governments constitute a significant impediment to local government performance. Lack of relevant qualifications and experiences and personnel attrition are also major concerns. Their analysis suggests that local government salaries almost certainly have to increase to ensure an improvement of decentralised service provision.

Kivumbi et al. (2004) study the effect of decentralised financial management systems on malaria control in Uganda and find the lack of familiarity with the complicated and cumbersome financial procedures to be a major cause of ineffective management of resources for malaria control. In particular delays in the disbursement of funds from the centre were found to be due to the lack of competence and capacity of district staff to work efficiently with the new system. This turned out to also be connected to the more fundamental problem of districts lacking the financial resources to recruit and retain qualified staff despite their formal requirement to do so.

Gomez (2008) assesses policy dynamics in the decentralisation of the Brazilian health sector that had an interesting effect on the managerial capacity of local governments. The author finds that initially, administrative functions in the health care sector were decentralised too quickly, resulting in the incapacity of local governments to effectively manage health care service provision. Observing this capacity gap, some states initialized a recentralization of health care provision. Threatened by the loss of managerial authority, some municipalities started to seek out support from municipal associations and international donor programmes increasing leading to a significant increase in their financial and technical capacity.

A few studies also consider the capacity of local residents to engage with local government institutions and hold them accountable for facilitating development outcomes as being a decisive factor for the effective functioning of decentralisation (e.g. Agrawal & Gupta, 2005; Agrawal & Ostrom, 2001; Bardhan & Mookherjee, 2006; Bienen et al., 1990; Conyers, 2003; Dauda, 2004; Golooba-Mutebi, 2005; Jones et al. 2007; Kauneckis & Andersson 2009; Narayana, 2005; Sayed & Soudien, 2005). Particularly qualitative studies at the meso- and micro-level provide some valuable insights into this issue. However, it must be noted that overall, this issue receives less attention and is treated with less depth than the others issues discussed above. Jones et al. (2007), for example, in their examination of the implications of participatory service delivery for childhood poverty in Andhra Pradesh, find that illiteracy and lack of information on the part of the citizens, particularly of vulnerable and marginalized groups, constitute an important hurdle to inclusive and meaningful participation.