

Decentralization in Client Countries

An Evaluation of World Bank Support, 1990—2007

Executive Summary

In recent years, developing countries have decentralized functions and responsibilities to lower levels of government at an increasing pace. The main reasons for such reforms are often political, but governments also adopt them as a way to improve service delivery and local governance. Typically, after the political decision is made, a country will turn to its development partners—including the World Bank—for support in implementing the new policies and achieving their development objectives.

The Independent Evaluation Group (IEG) assessed the effectiveness of Bank support for decentralization between fiscal 1990 and 2007 in 20 countries, seeking to inform the design and implementation of future support. Given the difficulties of measuring the results of decentralization, the evaluation used intermediate outcome indicators—such as strengthened legal and regulatory frameworks for intergovernmental relations, improved administrative capacity, and increased accountability of subnational governments and functionaries to higher levels of government and to citizens—to assess the results of Bank support in these 20 countries. To examine potential lessons at a sectoral level, the evaluation also assessed whether Bank support for decentralization improved intermediate outcomes for service delivery in the education sector in 6 of the 20 countries.

Bank support contributed to more effective decentralization—substantially in more than one-third of the 20 cases and modestly in the others. The most successful aspects of Bank support pertained to the legal frameworks for intergovernmental relations, the frameworks for intergovernmental fiscal transfers, and subnational financial management. Bank support was less effective in clarifying the roles and responsibilities of different levels of government and in improving own-source revenue mobilization by subnational governments. This was often a result of lack of political will.

Other things being equal, Bank support brought better results where there was consensus around the reform within the country prior to Bank engagement and when the support was combined with incentives for institutional reform at the subnational level. Looking forward, the results of Bank support for decentralization can be strengthened with more timely and coordinated analytical work to underpin it, by better coordinating fragmented sector-by-sector interventions, and by accompanying support for policy reform with technical assistance to strengthen local government capacity.

Introduction

All 20 countries reviewed in this evaluation have devolved significant responsibilities to lower levels of government. Politics may be behind this trend, fueled by a desire among citizens for strengthened democracy and improved governance and service delivery. But both the emergence of strong urban economies and ethnic tensions that threaten national identities also motivate governments to move closer to the people. Governments have not usually asked the World Bank to help with their decisions about whether to decentralize, nor has the Bank typically advocated decentralization, except in particular sectors. Usually—in 12 of the 20 case-study countries—governments have decentralized for political reasons and

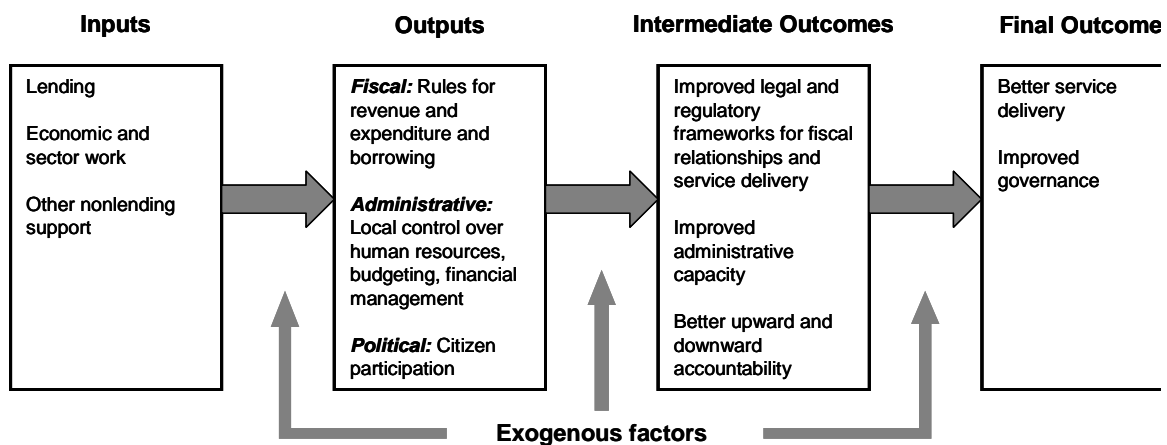
only subsequently asked the Bank to help implement the process, make it more rational, and improve service delivery and accountability.

Objectives of the evaluation

IEG assessed the effectiveness of Bank support for decentralization provided to 20 countries between fiscal 1990 and 2007. These countries were selected to ensure regional representation, and they accounted for 47 percent of all Bank commitments containing decentralization components during the period. The aim was to examine what worked and what did not to inform the design and implementation of future Bank support.

Decentralization has many meanings, but for this evaluation it was defined as *the transfer of authority and responsibility for governance and public service delivery from a higher to a lower level of government*. The characteristic that distinguishes decentralization from, say, simply shifting resources to local governments is that decentralization seeks to create relationships of accountability among citizens, service providers, and subnational governments and between the latter and central governments. The evaluation does not assess community-driven development, which was assessed in a separate IEG evaluation (2005b).

Figure ES.1: Framework for Assessing the Results of Bank Support for Decentralization



The evaluation framework

It has yet to be conclusively demonstrated that there is a causal link between decentralization and improved service delivery, good governance, or macroeconomic stabilization. Moreover, decentralization is a long-term agenda—industrialized countries often took more than a century to reach their current state of decentralization, and one or two Bank country strategy periods are simply inadequate to assess that. The decentralization process is also typically disjointed and subject to periods of progress and reversal. Therefore, rather than focus on the whole decentralization process or the connections between decentralization and service delivery, IEG focused on a set of intermediate outcomes that are essential for good service delivery in decentralized settings.

The key desired result is fiscally responsible, responsive, and accountable subnational governments that are likely, under the oversight of citizens and higher-level government, to improve service delivery and governance. The desired result has several components:

- Strengthened legal and regulatory frameworks for intergovernmental relations
- Improved administrative capacity

- Increased accountability of subnational governments and functionaries to higher levels of government and to local citizens.

IEG assessed the extent to which Bank support to 20 countries contributed to progress toward these objectives from 1990 to 2007. At the sectoral level, the evaluation assessed in 6 of the 20 focus countries the extent to which Bank support in the education sector helped generate resources for local governments to deliver services (consistent with formal intergovernmental fiscal frameworks), strengthened institutions and capacity for improved service delivery, and enhanced the accountability of local governments for service delivery to citizens.

Evaluation Findings

Quality of Bank support

To understand the quality of Bank support, the evaluation reviewed all Country Assistance Strategies (CASs) in the 20 countries, more than 40 pieces of relevant economic and sector work (ESW), and 203 lending activities with decentralization components. The 203 lending activities in these countries had associated financial commitments of about \$22 billion, of which about \$7.4 billion was specifically for decentralization-related activities.

The quality of Bank ESW on decentralization was mixed during the 1990s. The work was not always timely and in several countries did not influence the design of Bank CASs. Of the 20 country cases studied for this evaluation, decentralization-related diagnostic reports existed in 16. Only in 8 was timely analysis of the implications of decentralization policy undertaken within five years of issuance of the relevant laws. The evaluation also found little evidence that broader analytical work on decentralization had substantial influence on Bank operations in the countries studied. Sound analysis, when it was done, tended to affect assistance from the same Bank sector unit that undertook the analysis, but not usually beyond.

The quality of the Bank's lending portfolio to these 20 countries was also mixed during the 1990s. Weak understanding of political economy factors and associated risks led to overly ambitious objectives that often limited development effectiveness. Bank support for decentralization was provided by various sector units, with objectives that were not always consistent at the country level. Bank support focused on decentralization frameworks, but did not always provide parallel support to strengthen the technical capacity of the subnational governments to whom responsibilities and resources were transferred. Monitoring of the progress of Bank support for decentralization was weak; the Bank focused on output- or process-level indicators such as the passage of laws or fiscal transfers, rather than on the performance of local governments and other institutions in delivering services.

In the last five years of the evaluation period, the quality of Bank support for decentralization improved in 15 of the 20 countries. Bank analytical work provided a better understanding of the broader implications of decentralization for service delivery and governance, and in turn influenced the design of country strategies. Country-level assistance was therefore internally more consistent.

In several countries, support for policy reform was combined with technical assistance to strengthen different levels of government, and the Bank increasingly supported country efforts to assess the results of decentralization in terms of strengthened local government performance. Donor collaboration also improved during this period, and in several of the 20 countries joint diagnostic and analytical work—including at subnational levels—led to joint support for decentralization.

This said, the organizational structure within the Bank has in general resulted in less-than-optimum support for decentralization at the country level. An absence of clear leadership and coordination across sectors persists, except in a handful of cases where Country Directors and/or Vice Presidents have broken the sector-silo approach, thereby enabling more consistent support to client countries.

Results of Bank support

The evaluation divided the review of the results of Bank support for decentralization into two parts: support for the development and/or strengthening of decentralization frameworks, and support for improving service delivery in the education sector.

In supporting the development and/or strengthening of decentralization frameworks, the Bank generated outcomes that were high or substantial in 7 countries, modest in 12, and negligible in 1. Bank support for decentralization was most successful in helping strengthen the legal underpinnings of intergovernmental fiscal relations. The Bank helped establish frameworks for prudent borrowing and debt management, generating substantial results in half the countries to which it provided support. Support for strengthening financial accountability of subnational governments to higher levels of government also generated substantial results. The Bank was less successful in helping strengthen frameworks for own-source revenue or in enhancing such revenue; it contributed to substantial and sustained results in only five countries. The Bank also was not very successful in helping clarify the responsibilities of the various levels of government or in supporting monitoring at the local level.

The Bank contributed to better results in countries where the political will to decentralize was strong, where there was greater clarity on the type of fiscal and administrative decentralization to be pursued, and where Bank support was aligned with the client's decentralization strategy. This was the case notably in two post-conflict countries, where consensus on the need to minimize the potential for conflict was compelling. In countries where there was less consensus on the approach to implementing fiscal or administrative decentralization, the results of Bank support were weaker. This was often because the Bank supported approaches that were inconsistent with client country objectives.

The evaluation reviewed Bank support for decentralization in the education sector in greater depth in 6 of the 20 focus. The evaluation found that sector-level efforts to decentralize education services were not usually sustained or effective unless they were designed and implemented at the country level within a broad decentralization framework.

The evaluation did not attempt to aggregate ratings of the quality of Bank support or ratings of the results of Bank support for decentralization frameworks into a single rating for each of the 20 countries. However, a comparison of the ratings for quality and results indicates that when the quality of Bank support improves, the results also get better. This suggests that closer monitoring of the quality of Bank support for decentralization will likely improve the Bank's contribution to overall results in the country.

Recommendations

In many of its country programs, the Bank has made a de facto strategic decision to support decentralization and development of subnational government capacity. In a few cases—such as where the client country has made decentralization a cornerstone of its development strategy and has demonstrated political commitment to decentralizing—Bank support has been built on an explicitly cross-cutting approach. In most cases, however, Bank support has taken a sector-specific route, targeting decentralization and/or development of subnational government capacity as a logical way of supporting more effective and responsive service delivery in that sector. In these latter cases, the various Bank sector units have not always provided consistent or coherent support for decentralization.

Looking forward, IEG offers the following recommendations. They are applicable to every client country that has transferred at least some responsibility for service delivery to subnational governments, where the Bank has made a de facto strategic decision to provide support for decentralization through either a cross-cutting or a sector-specific approach:

- Ensure that Bank support—particularly lending—is underpinned by genuine client commitment to decentralized service delivery, given its importance to the success of Bank interventions. Occasionally, a role for the Bank may be justified in the absence of client commitment (for example, to forestall

potentially adverse measures), although the evaluation finds that Bank interventions under such circumstances are not usually effective.

- Encourage the adoption of a more results-based approach to decentralization by helping develop in-country and Bank capacity for monitoring and evaluation that focuses on local outcomes (such as enhanced accountability, greater citizen participation, and improved service delivery) rather than on just the process of decentralization.
- Ensure that Bank support at the country level is (among other things):
 - Founded on a clear analytical framework based on an integrative understanding of economic, political, and institutional factors at different levels of government and across sectors affected by decentralization
 - Accompanied by support (from the Bank or others) to develop and maintain local government capacity, to the extent feasible.
- Strengthen institutional arrangements within the Bank to ensure that an integrative view underpins Bank interventions, particularly those based on sector-specific entry points.