

GOVERNANCE GONE LOCAL: DOES DECENTRALIZATION IMPROVE ACCOUNTABILITY?

Jose Edgardo Campos and Joel S. Hellman

The case for decentralization is fundamentally an argument about governance. The case is rooted in two powerful intellectual traditions: the critique of economic centralism (especially central planning), and the perceived economic advantages of federalism. The first tradition posits that decentralization aligns government decision making more closely with local preferences, largely because of the information advantages associated with smaller jurisdictions.¹ The second tradition emphasizes the competition among regions sparked by decentralization, as local governments have incentives to engage in a “race to the top” to attract capital and labor, or simply to build their political reputations.² Both strands argue that decentralization will make local officials more accountable to constituents for their performance.

Though these arguments are deeply rooted in theory, surprisingly few empirical studies have examined the direct relationship between decentralization and governance. And the majority of studies that have been done tend to dispute the expected governance gains from decentralization.³ Though case studies often trumpet the successes of

particularly innovative local governments, we hear much less about the impact of decentralization on governance in the median region, beyond these shining stars. As attractive as the theoretical foundations of decentralization may be, the relationship between decentralization and governance in practice is still very much a matter of debate.

Moreover, the decision to pursue decentralization is largely political, with the underlying economic rationale secondary, if not marginal. In many cases, the decision to decentralize is sparked by strong reactions to a prolonged period of highly authoritarian rule. This has certainly been the case for the two countries on which this chapter focuses—Indonesia and the Philippines.

Nevertheless, the development community has generally welcomed decentralization with some enthusiasm, and has responded by shifting a significant share of development assistance to local governments, and to support for the decentralization framework.⁴ As decentralization projects in East Asia are still under way or in the early stages of implementation, an assessment of lessons from the region on the relationship between decentralization

and governance is not yet available. Yet there is a certain urgency for learning more about the impacts of decentralization. Experience so far has highlighted a range of governance risks that appear to threaten the promised accountability gains from decentralization.

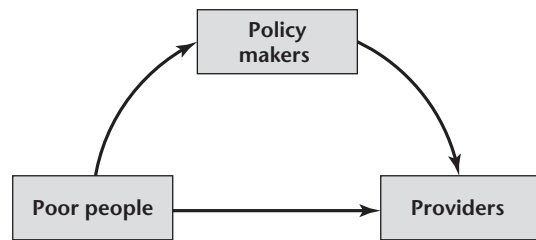
This chapter describes five key governance risks that could mitigate the posited advantages of decentralization: capture, clientelism, capacity constraints, competition over the balance of power between levels of government, and weaknesses in the interregional information flows that are critical for effective competition. To be sure, some of these risks can affect all levels of government. But this chapter argues that they may be more prevalent at the local level than at the national level. The chapter also argues that decentralization itself—if poorly designed—could exacerbate these governance distortions, undermining any positive gains in accountability. This is not to suggest that the conventional arguments about decentralization and governance are wrong. Rather, these experiences raise challenges that need to be addressed in designing decentralization, assessing its appropriateness in different political contexts, and assisting the process.

The chapter is organized in four parts. First, to help guide the analysis, we present a conceptual framework for governance building on the World Bank's *World Development Report 2004*. Second, we discuss the implications of decentralization for governance. Third, within this framework, we analyze the limited experience of East Asian countries with decentralization, given the above-mentioned risks. And fourth, we suggest possible avenues for minimizing these risks, given the numerous constraints that these countries face.

The Foundations of Governance

The *World Development Report 2004* presents a simple triad to illustrate the multiple relationships that constitute a framework for thinking about accountability in delivering public services. The triad focuses on three basic relationships: between citizens and policy makers, between policy makers and the bureaucracy (those responsible for providing public goods and services), and between the bureaucracy as delivery agents and the citizenry as clients.⁵ The first leg of the triad deals primarily with how policy makers acquire authority and thus power.

FIGURE 11.1 The Accountability Framework



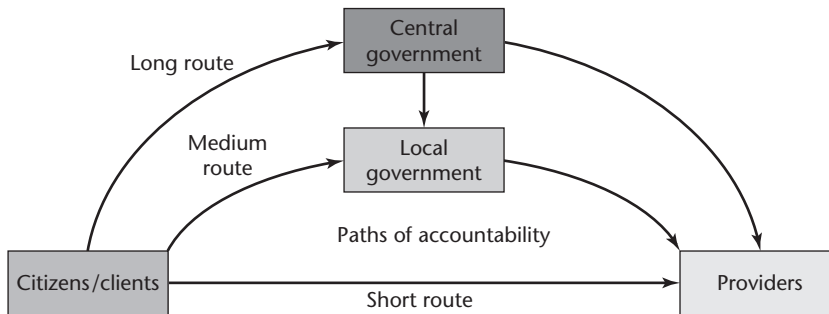
Source: World Bank 2004c.

The second and third legs address how they exercise that authority, such as by formulating policies, programs, and projects (see figure 11.1), and by delegating implementation to the public bureaucracy, civil society organizations, or the private sector.

The key idea of the triad is to show that citizens—as clients of public services—have two routes by which they hold providers accountable for service quality. The first is a “long route,” whereby citizens give feedback to policy makers about their preferences, who then control the providers of public services. The second is a “short route,” whereby users give direct feedback to service providers, creating pressure and providing information that helps policy makers hold them accountable for their performance.

Decentralization adds an alternative route to this accountability framework by shortening the link between policy makers on the one hand and citizens and public service providers on the other. Decentralization, proponents argue, brings politicians closer to the people, by giving them better information about constituents’ preferences and making it easier for constituents to monitor politicians’ performance. At the local level, citizens can more easily learn of the activities and programs that their local leaders have promoted and supported, discern how much effort they have devoted to improving public services, and confirm whether they have delivered on campaign promises. In other words, the information that citizens need to make judgments is more readily accessible under decentralization. Hence, it strengthens political accountability (see figure 11.2).⁶

Similarly, local politicians, being much closer to the action and having more direct interactions with the local bureaucracy, are potentially better able to monitor the performance of local agencies. Local leaders can more easily find out whether doctors are arriving at work at local health clinics and whether

FIGURE 11.2 Decentralization and the Accountability Framework

Source: Author.

teachers are showing up at community elementary schools. Leaders can also more quickly receive alerts on security problems that arise in different parts of the locality. In other words, decentralization improves bureaucratic accountability as well.

Finally, local communities are potentially better endowed with social capital, and thus face lower costs in organizing into groups. Client power at the local level is therefore likely to be much greater, and citizens are better able to communicate the nature and location of problems to local politicians. This induces improvements in the compact between local politicians and the local bureaucracy.

However, this simple approach includes some important untested assumptions. First, it assumes that proximity breeds accountability, and that accountability is largely a function of information. Yet a range of other political factors also determines accountability—factors that may not necessarily be more prevalent at the local level. Second, the standard approach assumes a frictionless relationship between levels of government, and thus that local governments can respond effectively to the concerns of their constituents and exercise effective authority over service providers. Yet competition between policy makers at the center and in the localities could constrain the responsiveness of local governments to constituent pressures and weaken their capacity to control service providers. And third, the simple model does not incorporate interregional dynamics and asymmetries that could alter the responsiveness of local governments to their own constituencies and influence their control over service providers.

Even more importantly, this approach ignores the importance of capacity constraints. Government

officials need to have enough training, experience, and professional skills to competently make and execute responsive public policies. If officials do not have adequate capacity, then they cannot implement their designated tasks effectively. *Capacity* in this context refers to the skills public officials need to deliver on various mandates, the resources (capital and financial) they require to support their efforts, and the systems (such as budgeting systems) that enable large numbers of bureaucrats to work together effectively. Obviously, the same considerations hold for members and staff of civil society organizations.

Accountable government generally requires a certain degree of institutional capacity. In particular, participants need information for auditing, evaluation, reporting, investigations, and prosecution. They also need processes, skills, and resources to provide the infrastructure and create the incentives to produce the right information. Accountability is thus circumscribed by both institutional and individual capacity.

The Risks of Decentralization

In practice, decentralization does not occur in a vacuum. Many factors—including historical trends, institutional inertia, and class cleavages—may undermine the simple links between decentralization and improved governance. The next section examines some of these risks.

State Capture at the Local Level

At every level of government, state capture may distort political accountability between citizens

and policy makers. State capture refers to “actions of individuals, groups, or firms either in the public and/or private sectors to influence the formation of laws, regulations, decrees and other government policies to their advantage through the illicit and nontransparent provision of private benefits to politicians and/or civil servants” (World Bank 2000: xv).⁷ State capture distorts the chain of accountability between politicians, service providers, and constituents through asymmetries of political influence. Analysts have only recently studied the dynamics of state capture at the local level (Bardhan and Mookherjee 2000; Zhuravskaya 2000). The question is: are local governments more susceptible to state capture than their national counterparts? The limited empirical studies suggest that they are.

First, state capture thrives in an environment where highly concentrated interest groups—especially powerful firms and families—dominate the market for political influence, and where political competition is weak. Local economies tend to be more homogeneous, more concentrated, and less competitive than the national economy, creating fertile ground for dominant economic actors to engage in state capture. This is particularly true in resource-rich regions in developing countries, where local economies depend on a particular state monopoly or powerful firm. In such cases, the boundary separating the interests of the region and the firm can be murky at best, and local political and economic elites are closely intertwined in promoting state capture.

Second, many of the institutions normally expected to serve as checks on state capture are weaker at the local level than at the national level, especially in developing countries. Local legislatures in most East Asian countries typically do not yet serve as a significant countervailing force on the executive. Even more than their national counterparts, these legislatures lack technical and support staff, resources, experience, and training.

For the same reasons, local judicial systems tend to be less effective (and more incompetent and corrupt) in rendering fair judgments in the face of substantial asymmetries of power among contesting parties.⁸ As a result, the executive branch tends to dominate local polities in decentralized countries, with local representative and judicial institutions offering weak constraints.

Third, countervailing powers representing a broader range of public interests, such as the media and nongovernmental organizations (NGOs), are generally less developed in local jurisdictions. Even in large, geographically and linguistically diverse countries such as Indonesia, the main media outlets are highly concentrated in the capital city. At best, an emerging but still loose network of local newspapers and television stations resorts to “selling news for cash” to survive, regardless of its veracity.

In most East Asian countries, years of authoritarian rule have systematically weakened the development of an NGO sector. Though the number of NGOs is growing, they still tend to not only concentrate in the capital city but also depend on donor support. Some are even government-sponsored and thus cannot conduct their activities at arms length. Local NGO networks in most East Asian countries—while expanding—therefore remain quite weak. With limited resources, low capacity, weak links to national networks, and significant government interference in their activities, local NGOs still tend to play a restricted role in holding local governments accountable.

In many East Asian countries, the question of who captures whom at the local level is less straightforward than in other parts of the world, where the private sector is more autonomous. The problem of local state actors using their power to capture ownership of local businesses or de facto cash flow rights is particularly serious. This has been a longstanding issue in China. In Indonesia, a preliminary study of regional legislation (known as *perdas*) showed surprisingly frequent references to local *pemda* companies—those wholly owned by district governments, with control exercised by local executive officials. Whether local governments are seizing opportunities to expand their control over local businesses, or businesses themselves are using their influence to capture local officials, the impact is generally the same: the exercise of state power favors particular firms, often at the expense of the region’s broader welfare.

Expanding Clientelist Roots

Clientelism—in which politicians distribute publicly funded goods to selected members of the electorate in return for votes and political

support—systematically weakens political accountability in a variety of ways.⁹ It narrows the range of constituents to whom politicians are responsive. Through the distribution of “reversible” goods—those that can be withdrawn—to exclusive networks, clientelism also gives politicians a mechanism to punish voters who do not provide continuous support. Clientelism also creates disincentives for groups to develop collective forms of representation and therefore weakens interest group competition. Like state capture, clientelism is common to many different types of political systems and at all levels of government. However, it might be more pervasive at the local level, for several reasons.

With smaller jurisdictions, local politicians are more likely to engage in clientelist forms of “retail” politics to win elections and maintain political support networks. In such jurisdictions, politicians can more effectively identify individual voters for clientelist networks and more easily monitor their political support, making clientelist “contracts” more feasible and enforceable.¹⁰ Local clientelism redirects the arrows linking policy makers, providers, and clients. Rather than citizens holding local officials accountable, clientelist politics allows politicians to shape constituencies to their own advantage by selectively providing public services and other benefits. For example, discretionary distribution of front-line service jobs to political supporters systematically weakens the potential links between clients and service providers, as job recruitment and promotion have little to do with performance.

Moreover, local elites in more homogeneous communities tend to be bound together by a dense network of familial, ethnic, social, and cultural ties that encourage clientelist behavior and, more generally, corruption (Tanzi 1995; Prud’homme 1995). The continued presence of aristocratic lineages in the sugar-producing provinces in Central Luzon and Western Visayas in the Philippines; the network of tribal leaders in Papua New Guinea; and the system of *ulama* in East Java, Indonesia, are all ready-made local clientelist networks that build on predemocratic legacies. These legacies have proven quite adaptable to new modes of political competition. Such exclusive patron-client networks are far more difficult to build and maintain in a more diverse and competitive national playing field. As a

result, clientelism is generally a phenomenon of local politics.

Where clientelism is prevalent, decentralization can seriously exacerbate inefficiencies and inequalities in public services. Clientelist governments tend to favor investments that generate jobs, which they can then distribute to build patronage networks. In a common example, newly empowered local governments may favor investing in new schools as opposed to improving existing schools. As a result, each school is underresourced, undermining any positive impact on educational levels. Indeed, clientelism can distort a range of decisions about public services—from the service mix, to the location of facilities, to standards discriminating in favor of particular constituent groups at the expense of more overall community welfare.

Amplifying Capacity Constraints

Decentralization shifts the responsibilities of local government from purely implementing policy to both formulating and implementing policy. This requires a wider range of skills and experience, which local politicians and bureaucrats may have to develop. Hence, at least in the initial stages of decentralization, local skill levels and policy-making processes are likely to lag behind those at the national level.¹¹

Besides skills and processes, capacity also implies appropriate management systems—accounting, budgeting, procurement, tax administration, auditing, reporting, and personnel management. In many developing countries, national governments continue to struggle with reforming these systems. Given their relative inexperience and more modest resources, local governments are likely to find establishing such systems and processes even more challenging.¹² (See chapter 7 for more on the problems East Asian countries face in creating personnel management systems.)

Resources are often a forgotten or underestimated aspect of capacity. To train personnel, develop systems and processes, strengthen accountability, and ultimately deliver public goods and services, local governments need funds. Other chapters discuss funding issues—in particular, intergovernmental transfers and local taxation—in more detail. Suffice it to say that efforts to fund local government present complex considerations

and challenges with which newly decentralizing countries—including most East Asian countries—are only starting to grapple.

Capacity problems are not limited to institutions and processes within the executive branch; the same constraints affect other actors in the accountability framework. The accountability of local governments—like that of the national government—depends largely on the strength of countervailing institutions, such as the legislature and judiciary and civil society groups, to provide effective inputs and monitor policies. Here again are reasons for concern that capacity among these actors is not as strong at the local level as at the national level. As suggested, local legislatures in East Asia generally have limited access to independent policy expertise and analysis and therefore are much more dependent on local executives. Local courts generally remain embedded in centralized hierarchies even in the most decentralized countries. As a result, patterns of career advancement draw court officials to the center, leaving local courts with less capacity.

Comparing the capacity of civil society between the center and the regions is more difficult but also essential to determine the foundation for local accountability. As mentioned, the local civil society institutions regarded as key checks to prevent state capture and clientelism are not well developed in many East Asian countries, especially those in transition from previously authoritarian systems, where the legacy of public participation is particularly weak. With a few exceptions, NGO penetration at the local level is also lower than at the national level. Though no systematic quality comparisons exist, it is widely agreed that the quality of the media beyond the national level drops substantially in most developing countries. In sum, it is not only local governments that face capacity constraints relative to their national counterparts, but also the other institutions and actors whose participation is essential to holding local governments accountable.

Creating Intergovernmental Tension

Regardless of the initial enthusiasm with which many countries have embraced decentralization, when it comes to actual dividing power and authority across different levels of government, decentralization generally remains contested terrain for a

prolonged period. While the initial impetus for decentralizing power in East Asia has been broader political transitions from highly centralized regimes or within such regimes, implementation has confronted a variety of fiscal and administrative challenges. These challenges often generate conflicting incentives at different levels and within different branches of government. The result is that the shape of decentralization is constantly evolving, reflecting changing political and economic realities, conflicting interests, and shifting priorities.

This changing landscape has a number of potentially serious implications for the impact of decentralization on local governance. First, contests over the extent and contours of decentralization between levels of government tend to constrain local autonomy. The shifting relationship between local politicians and service providers and their national counterparts blurs lines of accountability. This can reduce the responsiveness of local governments and weaken their authority over service providers, who may be responding to incentives from national hierarchies.

Second, contests across levels of government often lead to what might be called imbalanced decentralization—especially between power and financial responsibility, distorting incentives at lower levels. In Indonesia, for example, local governments have considerable control over expenditures for basic public services but little control over the civil servants that provide those services. Thus, these governments cannot downsize the workforce, alter remuneration packages, or introduce new (and perhaps more meritocratic) recruitment and promotion to coincide with changing expenditure priorities.

In many countries local governments also face strong constraints on raising revenues, limiting any autonomy they receive over local services. Such imbalances might not only constrain local governments but also create incentives for them to make inefficient investment decisions, especially if they can shift costs to central budgets (see chapters 5 and 6).

Both of these factors generate substantial uncertainty regarding the distribution of functions and responsibilities, the extent of autonomy, and the balance of power between levels of government. Such uncertainty can weaken accountability at every leg of the triad, as it affects the expectations

of all actors in the framework. Such uncertainty can also stifle investment and thus interregional competition.

Stifling Rather Than Promoting Interregional Competition

The view that competition among jurisdictions can enhance governance has been an important justification for decentralization. The basic foundation of this idea is simple: officials who steal or waste resources, or fail to provide essential public goods relative to other regions, will lose residents and businesses, thus reducing the tax base. This argument has taken on greater weight with the growing focus on the investment climate. Given mobility of capital among countries as well as within countries, businesses can seek out jurisdictions where regulation is not overly onerous, infrastructure is sound, and trust relationships can be forged with local officials. This kind of competition for investment is seen to discipline local governments, strengthening their incentives for delivering transparent and accountable governance.

Recent literature has stressed that competition among regions could also have a host of negative implications for governance. Competition for capital and residents could become too intense, pushing governments to overshoot in cutting tax rates and expenditures and providing public goods (Keen and Marchand 1997). Such competition could also have negative spillover effects, such as exporting taxes or pollution to neighboring regions (Gordon 1983; Oates and Schwab 1988). More generally, competition for investment could lead regional governments to distort the investment climate to favor particular firms through preferential regulations and protectionism, or, even worse, by sheltering firms from tax policies and regulations of the central government. In the latter event, competition among regions could weaken the capacity of the central government to collect revenue, enforce law, and regulate interregional competition to ensure welfare-enhancing outcomes. This scenario has been called “state-corroding” decentralization (Cai and Treisman 2002).

The risks of state-corroding decentralization are particularly high in countries where central law enforcement and respect for the constitution are still quite weak. In such contexts, regional

governments can undermine national laws and regulations without likelihood that these actions will be subject to central review and potential revocation. This allows regional governments to entice firms with tax evasion strategies, legal exemptions, regional protectionism, and even shelter from court actions, further undermining the center’s regulatory and enforcement capacity. Interregional competition thus becomes not a race to the top but an escape route by which firms avoid the reach of national authorities. In East Asia, we see this particularly in the justice sector, where complex and high-profile legal challenges are often deliberately shifted to remote regional courts, where the opportunities for undue influence may be greater. Such a phenomenon is also evident in regional regulations that provide preferential tax and regulatory regimes for specific firms in contradiction to national legislation.

The Early Experience in East Asia

Few empirical studies of the impact of decentralization on governance in East Asian countries exist so far. This is partly because most countries in the region began the decentralization process only recently: the Philippines and Vietnam in the early 1990s, Thailand and Indonesia in the late 1990s, and Cambodia at the turn of the century. Of these, Indonesia and the Philippines have gone the furthest in implementing comprehensive programs, and thus offer modest empirical evidence on the impact of decentralization on governance. While the experiences of each country are undoubtedly unique, these two nations can provide a glimpse of the potential benefits, risks, problems, and challenges to governance as a country decentralizes.

Empirical evidence on these two countries comes from perception-based surveys; no systematic analysis based on objective indicators is yet available, at least for East Asia.

Indonesia

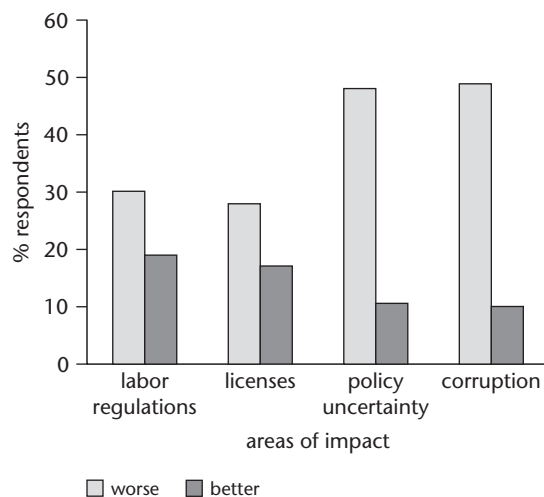
Because Indonesia implemented its Big Bang decentralization only in 2001, it is still quite early to expect reliable estimates of the impact of complex and slow-moving institutional changes on perceptions of governance. Though the reform did rapidly transfer control over a significant share of public resources and direct authority over nearly 2 million

civil servants to the local level, the institutional changes are still in flux and the lines of authority are unclear in many areas. Moreover, the country has recently revised the basic laws defining decentralization, so considerable uncertainty remains about its ultimate extent and shape. To expect this fluid environment to exert a clear impact on perceptions of governance—which generally lag behind institutional changes—is premature.

A number of empirical studies have attempted to measure governance trends across districts in Indonesia, but few provide a benchmark for comparing governance indicators before and after decentralization. As a second best—one that focuses on how the perceptions of firms change over time—the World Bank’s Productivity and Investment Climate Survey (PICS) explicitly asked firms to identify the direction of change on a variety of governance dimensions before and after decentralization. Though these data are preliminary, they provide some basis for exploring these issues.

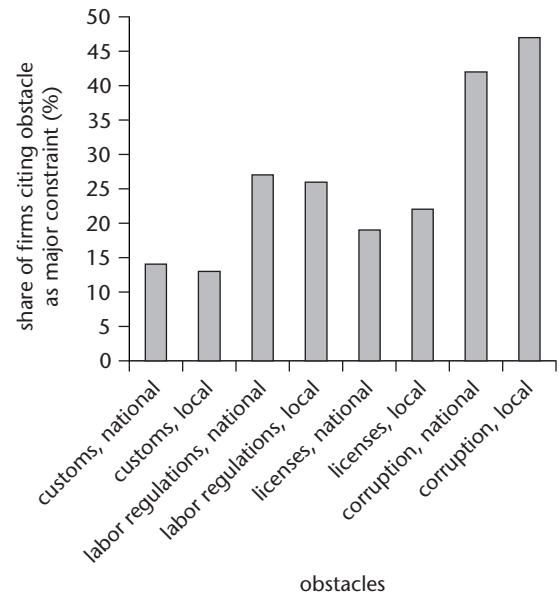
The PICS survey asked firms directly about the impact of decentralization on key aspects of governance and the investment climate. Firms perceived decentralization as having a negative impact in four areas: labor regulations, licenses, policy uncertainty, and corruption (see figure 11.3). While just under 30 percent of the firms felt that decentralization has made licensing and labor

FIGURE 11.3 The Negative Impact of Decentralization, as Cited by Firms in Indonesia



Source: PICS.

FIGURE 11.4 Obstacles to Business, as Cited by Firms in Indonesia



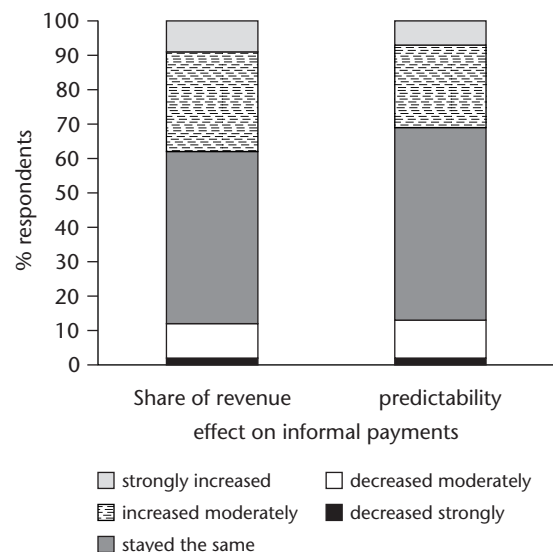
Source: PICS.

regulations worse, nearly 50 percent think policy uncertainty and corruption—two broad indicators of accountability—have worsened.

The survey results suggest that greater proximity to the client—in this case, in the business arena—does not necessarily lead to perceptions of greater accountability. The survey also asked firms to rate the extent to which a number of standard problems affect their business. In customs, labor regulations, licenses, and corruption, firms see little difference between the constraints imposed by national governments and those imposed by regional governments (see figure 11.4). Indeed, in some areas such as licenses and corruption, firms rate local governments worse than the national government, despite the greater proximity of the former.

Corruption appears to be a particular problem under decentralization in Indonesia. Over one-third of firms stated that informal payments had grown under decentralization, while less than 15 percent cited some improvement (see figure 11.5). Moreover, firms pay 64 percent more in informal payments as a share of annual revenues to local governments than they do to national level officials, on average (see table 11.1). Firms also spend 15 percent more of their time dealing with local regulations than with national regulations. Together,

FIGURE 11.5 Informal Payments after Decentralization, as Cited by Firms in Indonesia



Source: World Bank 2005.

TABLE 11.1 Regulatory Burdens on Firms in Indonesia

	National government	Local government
Time spent dealing with regulations (percent of total time)	7.1%	8.2%
Informal payments (percent of total sales)	1.35%	2.1%

Source: World Bank 2005.

these results suggest that bringing government closer to clients—at least those in the business community—has not led to greater accountability compared with the national government. Instead, decentralization is linked with a general decline in perceptions of government accountability at the local level.

These perceptions are consistent with analyses of the fiscal performance of local governments under decentralization. Several recent studies have pointed to a widespread trend in which regional governments have imposed numerous nuisance taxes and charges—levies that cost more to administer than

they reap in revenues—on small-scale economic activity. Many of these levies contradict national guidelines on the tax authority of local governments. Annual studies by the Jakarta-based monitoring organization Regional Autonomy Watch have emphasized the negative impact of these nuisance taxes and charges on regional investment climates. Studies of the legislative processes under which the taxes and charges have been formulated show little citizen consultation or participation (Lewis 2003; Regional Autonomy Watch 2004). Moreover, they tend to be poorly designed, with no clear links between service delivery and charges. Despite a requirement that national authorities review all regional legislation authorizing new taxes and charges within 30 days, a recent estimate suggests that some 60 percent of these regulations have not been reviewed, and that regions never sent a large share to the center for review (Lewis 2003). Though many regional governments have indeed introduced innovative programs to improve public service delivery and strengthen the transparency of local processes, little empirical evidence so far reveals a race to the top to improve regional investment climates.

In conjunction with World Bank projects that aim to invest in communities committed to governance reform, detailed case studies have examined governance dynamics at the district level (World Bank 2004b). These studies point to common factors distorting the potentially beneficial impact of decentralization on governance. First, these studies emphasize weak development of local “accountability infrastructure”: institutions that constrain the authority of the executive branch. The heads of districts in Indonesia—*bupatis* and *walikotas*—are still appointed by local legislatures, rather than elected, with a strong role played by national parties. Removing district heads requires the approval of national authorities. The local legislatures themselves are extremely weak and ineffective: they have virtually no technical expertise, and rely entirely on the executive branch in key areas such as legal drafting, budget analysis, and public accounting. Moreover, case studies of elections for local legislatures have shown that the chosen candidates have weak accountability ties to their constituents. Candidates routinely pay national party organizations for ballot slots, and their selection is closely linked to elite village networks. Voters are also strongly

influenced by direct payments and other transfers. As a result, the local governance environment is highly susceptible to clientelism and capture.

Local legal and judicial institutions play only a minor role in the accountability infrastructure. A detailed study of 37 cases where public officials stole or misused local development funds concluded that most communities could not overcome local power structures and elite networks to gain access to justice through formal and informal dispute resolution mechanisms. Only in cases where external actors such as national civil society groups, outside media, and representatives of a national project management structure intervened were corrupt local officials successfully prosecuted.

Civil society groups and other external constraints on government such as the media remain weak in most districts. Efforts to promote local plans to address poverty have been hampered by low levels of participation, except in districts near major universities or technical institutes. Though community radio is developing rapidly, print media do not penetrate far beyond the provincial capital. According to a recent poll, more than 85 percent of Indonesians obtain their political information from television (International Foundation for Electoral Studies 2004). Provincial and national media devote minimal attention to district news. Interviews also suggest that it is standard practice for local governments to pay provincial and national journalists for positive stories on a per story basis.

As mentioned, a major factor weakening the impact of decentralization on governance is uncertainty about the proper role of different levels of government and the resulting conflicts. In Indonesia, despite recent revisions to the main decentralization laws (formerly Laws 22 and 25 of 1999; now Laws 32 and 33 of 2004), the roles and responsibilities of district governments have not been fully clarified. The role of provincial governments in decentralization is also poorly defined. Moreover, the oversight functions of different central ministries—especially the ministries of Home Affairs and Finance—remain unclear. This has led to constant conflict, as different levels of government and competing agencies stake their claims over vaguely defined roles and powers. This conflict is reaching a crescendo with recent proposals to further revise the main decentralization laws. The boundaries of

decentralization in Indonesia have thus been in a permanent state of renegotiation since Big Bang decentralization began in 2001. Not surprisingly, decentralization has exerted its most negative impact on policy uncertainty.

The World Bank's engagement in decentralization has highlighted the lack of information on regional performance, which is essential to promoting a race to the top among regions. Decentralization—especially the initial shift of control over civil servants to local governments—has undermined Indonesia's regional information systems. The problem is particularly severe in key decentralized public service sectors such as health and education. Minimum service standards mandated in the decentralization laws have not yet been developed. Only a small minority of districts have submitted the required performance self-assessments based on annual and five-year plans. Districts send only a small share of laws and decrees to the center for official review, and the Ministry of Home Affairs does not have a system for analyzing and cataloging this material. While several civil society groups have begun to develop systems for comparing performance across districts, especially regarding the investment climate, these efforts do not yet serve as a reliable basis for monitoring districts. As a result, little information about regional performance is available to stimulate competition and disseminate good and bad practices.¹³

The Philippines

In contrast to Indonesia, which is still in the very early stages of decentralization, the Philippines has several years more experience, having launched its major reform in 1992–93 under the mandate of its post-Marcos democratic Constitution of 1987.¹⁴ Given more than a decade of experience, analyzing the long-term impact of decentralization on governance outcomes might indeed be possible. However, empirical analysis in the Philippines is nearly as sparse as in Indonesia, and no direct survey measures have explicitly examined the impact on perceptions of governance or related indicators. Existing evidence comes from an extensive study by the Center for Institutional Reform and the Informal Sector (IRIS) at the University of Maryland and the World Bank, based on surveys of households and public officials at different levels of

TABLE 11.2 Perceptions of Corruption in the Philippines
(mean statistics, scaled from 0 to 100)

Survey questions	Type of respondent				
	Municipal health official	Municipal administrative official	Municipal official at DECS	Teachers at public schools	Teachers at private schools
Corruption in the national government	74.00	69.23	62.77	66.35	80.85
Corruption in the provincial government	59.43	43.86	37.96	50.65	69.57
Corruption in the municipal government	43.42	29.32	24.79	36.86	62.32
Corruption in the <i>barangay</i> government	38.96	28.85	22.22	24.76	48.89

Source: Azfar et al. 2000.
Note: DECS = Department of Education, Culture, and Sports.

government.¹⁵ The study presents a mixed picture of the impact of decentralization on governance and concludes that “the results do not match the most optimistic theoretical expectations.” The authors find that while perceptions of corruption are much lower at lower levels of government, local governments are no more accountable to local preferences than the central government, given a variety of constraints on responsiveness.

Perception-based measures of corruption in the Philippines have shown significant and consistent improvement since decentralization, though establishing a clear causal connection is difficult. According to most international rankings of corruption, the Philippines began to show progress in the early 1990s and maintained this progress throughout the decade. Moreover, surveys of public officials revealed that respondents in every category saw corruption as more prevalent at the national level than at lower levels of government (see table 11.2). While municipal officials have obvious biases, the pattern is the same among teachers at private schools, suggesting that the responses may in fact reflect reality in the ground.

These differences in perceptions of corruption may reflect different sources of information about local and national levels that may be even more important in explaining the dynamics of accountability. The IRIS–World Bank survey asked respondents whether they had seen or heard reports of local and national officials engaged in corruption. Among the sample of over 1,100 households,

49 percent had seen or heard reports of national officials engaged in corruption, while only 27 percent had seen or heard reports of local officials engaged in corruption (Azfar et al. 2000).

A deeper probe into the sources of information on politics among Philippines respondents led to an interesting result (see table 11.3). While nearly 98 percent of respondents rely on the media—especially radio and TV—for their information on national politics, these sources are far less prominent with regard to local politics. Instead, 42 percent of the respondents used personal networks as their primary source of information on local politics and corruption, relying on community leaders or local officials rather than the media. This reflects the weak penetration of local media and their generally weak capacity to cover local politics. Thus, the media may play a much weaker role in monitoring local officials for corruption, and information on local politics could be more susceptible to manipulation through clientelist networks and state capture.

The IRIS–World Bank survey also explored local accountability by asking both households and officials to identify their funding priorities. Except for infrastructure (roads, canals, bridges), the professed preferences of municipal officials failed to match those of households. In the critical area of health, the correlation is in fact negative (see table 11.4).¹⁶

To supplement this finding, the survey asked public officials how they learned of household preferences. All the officials attested to making some effort to understand such preferences. About

TABLE 11.3 Sources of Information on Politics, as Cited by Households in the Philippines

	Local politics	National politics	T-test for difference between the two results ^a
Television	0.221	0.635	-16.12
Radio	0.332	0.307	0.91
Newspaper	0.030	0.037	-0.67
Officials	0.181	0.008	10.50
Civic associations	0.014	0.003	2.04
People/neighbor/ friends/family	0.195	0.009	10.91
Inside information	0.018	0.002	2.80
Other	0.105	0	2.46
Total media	0.583	0.979	-16.94
No source	0.491	0.416	3.57

Source: Azfar et al. 2000.

Note: Table indicates the percentage of people using each source (given that a source is used, scale 0 to 1).

a. Numbers greater than 3 indicate that the difference is statistically significant at the 1 percent level.

TABLE 11.4 Correlation between Funding Priorities of Public Officials and Households in the Philippines

Priorities	Municipal officials (municipal average; number of officials = 78)
Roads, bridges, canals	0.495 (2.14) ^a
Education	0.015 (0.08)
Health	-0.703 (-2.14) ^a
Agriculture/irrigation	-0.090 (-0.34)
Garbage collection	-0.099 (-0.22)
New jobs	-0.030 (-0.08)
Aid to poor	-0.068 (-0.68)
Water, drainage	0.339 (1.08)

Source: Azfar et al. 2000.

Note: Public officials' preferences are regressed on household preferences for each priority type where variables are differences from the national mean. The first number in column two is the OLS regression coefficient, with t-statistics in parentheses.

a. Significant at the 1 percent level.

30 percent consult with community leaders and local civic organizations, while 15 percent also conduct surveys and make other inquiries (Azfar et al. 2000). However, neither method significantly strengthened the relationship between the funding priorities of households and municipal officials.

Despite this apparent mismatch, assessments of decentralization's impact on public service provision in the Philippines are mixed. For example, experts express concern about the deteriorating quality and administration of public health programs, but most people express more positive views. According to a June 1999 survey by Social Weather Station (a nonprofit organization specializing in survey-based research), 58 percent of respondents said health care had improved with decentralization, while only 8 percent said it had worsened (USAID 1999). A more quantitative measure of service quality is administrative delays in hiring and paying staff, which are significantly more severe in education than in health (see table 11.5). This is revealing, as the education sector has seen far less decentralization than the health sector, even though the Local Government Code requires devolution of basic education to local governments. Although performance measures before and after decentralization are not available, devolved services seem to work better on some dimensions.

TABLE 11.5 Responses from Facilities on Administrative Delays in the Philippines

Health facility	Index
How often has there been a delay of more than one month in getting a new health worker on a payroll?	3
In the last year, were there any nonpayments or delay of more than two weeks in the payment of your salary?	17
In the last year, were there any nonpayments or delay of more than two weeks in the payment of your allowances?	7
Primary school	
How often has there been a delay of more than one month in getting a new teacher on a payroll?	26
In the last year, were there any nonpayments or delay of more than two weeks in the payment of your salary?	20
In the last year, were there any nonpayments or delay of more than two weeks in the payment of your allowances?	17

Source: Azfar et al. 2000.

Note: The higher the index, the worse the problem. The index, which is scaled from 0 to 100, is constructed as follows: $\{(0\% \text{ responded never}) + (1\% \text{ responded sometimes}) + (2\% \text{ responded most of the time}) + (3\% \text{ responded always})\} / 3$.

Some aspects of governance and service delivery standards have improved under decentralization, although whether these changes are due to enhanced accountability at the local level is much less clear. Surveys have shown that, as in Indonesia, key institutions in the local accountability framework—such as an independent media, and legislative and judicial branches to check the power of local executives—are weak. However, unlike Indonesia, the Philippines has seen civil society groups mushroom at the local level. A number of studies reveal that NGOs have indeed become actively involved in the decision making of the local government.¹⁷ In 1986, when the country restored democracy, 27,100 NGOs had registered with the Securities and Exchange Commission. After passage of the Local Government Code, this number quickly doubled to 50,800 in 1992.

Today more than 95,000 NGOs exist, with some 7,000 operating at the grassroots level (Alonzo 2003). One study concluded that “NGOs operating at the local level often found themselves in direct confrontations with local elites who, understandably, feel threatened when NGO members build alliances, muster funds and other resources for use by local people outside the control of traditional patrons, and gain the moral high ground in the process” (Alonzo 2003: 17).¹⁸

However, these surveys suggest that the responsiveness of local governments to the new layer of NGOs has been limited, owing to legal and procedural constraints on decentralization and fears among central officials that they will lose control over the regions. While boosting local taxing authority, the Local Government Code also constrains local revenue collection through rules on rates, assessments, appeals, and administrative responsibilities (USAID 1999). The code also regulates earmarked funds such as the Special Education Fund, specifying the property levies through which these funds are raised and the rules for distributing the proceeds. These requirements significantly compromise local revenue autonomy. In fact, whenever fiscal (deficit) problems have become serious, the central government has conjured up schemes to reduce mandated, formula-based transfers, further limiting the flexibility and responsiveness of local governments (Azfar et al. 2000; Alonzo 2003).

Not surprisingly, as in Indonesia, the hypothesized race to the top among local governments has not emerged. But unlike in Indonesia, and perhaps because of longer experience, reliable information on performance is beginning to develop, spurring some competition among local governments. The power of information in fostering competition is perhaps best illustrated by the success of the Galing Pook Awards. These awards, first introduced in 1993 in response to the Local Government Code, were patterned after awards to U.S. local governments for notable achievements in improving service delivery and public welfare. Since their inception, a total of 2,339 programs have competed for these awards, with just 175 selected and 8 consistently cited for excellence and elevated to the Hall of Fame. The awards carry no monetary compensation; they simply provide a credible signal to

local—and potentially higher-level constituencies—that a mayor or governor is doing a good job.¹⁹

Conclusions

Though decentralization is, fundamentally, a strategy for improving governance, its impact on governance outcomes is still largely unknown. A strong body of theory posits governance gains from decentralization, but recognition of how decentralization can go wrong has grown. The expected gains are based on assumptions about the politics of accountability at the local level and the nature of interjurisdictional competition that need to be examined closely, especially in developing countries. Using an accountability framework that links citizens, policy makers, and service providers, this chapter examined the potential risks in each link that threaten to undermine the expected governance gains from decentralization. The chapter then applied that framework to the two East Asian countries with the most significant decentralization programs: Indonesia and the Philippines.

Not surprisingly, in neither country has decentralization fulfilled the governance goals predicted by the most optimistic theories. In Indonesia, which is still in the early stages of its reform, the initial impact on perceptions of governance and selected outcomes has not been positive. There is a widely held view that decentralization has exacerbated corruption and significantly increased policy uncertainty across different levels of government. Decentralization has also led to a greater regulatory burden on firms and questionable financial management practices. These problems have contributed to a general weakening of the investment climate, which has harmed Indonesia's growth prospects. In the Philippines, which has a longer record of decentralization, the picture is more mixed. Overall, perceptions of corruption have declined, and service delivery standards have improved somewhat. However, the link between these outcomes and improvements in the accountability of local politicians is weak.

In both countries, surveys and case study research suggest that the most serious problem is the weakness of local institutions intended to play a major role in the accountability framework, including local legislatures, judicial institutions, and the media. Local officials—even more than their

national counterparts—are subject to the risks of capture and clientelism. Countervailing institutions at the local level generally lack the independence and capacity to check these risks. This does not suggest that decentralization in such contexts should be avoided. Indeed, experience in the Philippines shows that decentralization can encourage the development of a vibrant local civil society network. Yet more needs to be done to support the other key institutions in the accountability framework that guarantee and sustain the expected governance gains from decentralization.

The case studies also reveal the risks associated with sustained uncertainty about the division of roles and responsibilities across levels of governments. In Indonesia, in particular, decentralization is hotly contested terrain. The enabling legislation is often inconsistent and leaves many issues unresolved. These inconsistencies have set the stage for serious political conflicts across levels of government and among agencies, further exacerbating these uncertainties. Even after a decade of decentralization, the Philippines suffers from similar problems. Such an environment constrains the ability of local officials to respond to the demands of their constituents, and shifts their focus to bureaucratic struggles to preserve their powers. Uncertainty blunts the impact of decentralization on accountability at the local level.

Finally, the case studies emphasize the critical role of information in spurring interregional competition, yet these systems have largely been overlooked in the context of decentralization. The decentralization process itself tends to fragment and weaken information flows from the local level over the short term. Significant efforts are needed to preserve these channels and develop new standards and instruments for measuring and disseminating information on regional performance. These flows expand the range of information available to local voters, who surveys have shown still largely depend on social networks for information, which can encourage clientelism and capture. These flows are also essential to enabling investors, donors, and others to compare the performance of different regions, and to widely disseminate good and bad practices to maximize their impact.

The analysis in this chapter suggests a strategy for enhancing the impact of decentralization on

governance. Such a strategy should rest on three pillars:

- *Frame decentralization within national rules that weaken the ability of local governments to engage in capture or clientelism.* To combat local capture, national authorities need to enforce strong restrictions on the ability of local governments to offer tax and regulatory privileges to specific firms and groups. Local legislation often codifies such privileges, and needs to be subject to some form of central administrative review. To combat clientelism, countries also need to link decentralization to national civil service reform, stipulating meritocratic recruitment and advancement with appropriate central oversight and appeals. The political and economic incentives for the center to enforce such standards in regions may be stronger than the incentives for the center to adhere to the same standards.
- *Focus on strengthening local countervailing institutions and collective associations, not only through bottom-up participation but by linking them to national networks, which can help these institutions counterbalance entrenched local elites.* To enhance local accountability, countervailing institutions and collective associations may need to marshal resources outside their localities to enhance their power and influence. Capacity-building programs should therefore focus on forging closer links between local institutions and national networks. Local legislatures may be more effective at checking the executive branch if they are allied more closely with a national legislative network. Local civil society groups may be more effective in promoting accountability if they can rely on the capacity and power deriving from their national networks.
- *Strengthen a national framework for encouraging competition among regions, so local capture and clientelism entail reputational costs and lower external investment.* Providing information on regional performance measures and the quality of governance is particularly important, as such information can counterbalance the powerful local pressures supporting capture and clientelism.

Overall, this strategy entails using national structures and networks to enhance the ability of local organizations to promote greater political accounta-

bility under decentralization. This approach complements community-driven development (see chapter 12) by strengthening countervailing institutions and building local demand for good governance.

Endnotes

1. The main proponent of this view was Friedrich Hayek 1948.
2. The classic statement of this view is Tiebout 1956.
3. For a review of the literature, see Bardhan 2002. See also Bardhan and Mookherjee (2000) for a discussion of decentralizing infrastructure services that questions received wisdom on the impact of decentralization on governance.
4. The World Bank has been particularly active in this area, especially in East Asia. In Indonesia, for example, 40 percent of the Bank's lending program for 2004–7 will focus on local governments and support decentralization.
5. The *World Development Report 2004* characterizes these bilateral relationships between agents and principals as fostering accountability (World Bank 2004c).
6. This argument dates from the classic works of Rousseau 1986.
7. More specifically, the possibility of obtaining rents drives influential groups and individuals to bribe politicians and high-ranking civil servants, who introduce and maintain bad laws, policies, and regulations to perpetuate their illicit earnings. Note that in this context, corruption causes bad governance.
8. See, for example, World Bank 2004b.
9. For a review of the literature on clientelism, see Keefer and Khemani 2003.
10. Illustrating the contrast with the national political arena, a popular song on the eve of Indonesia's first democratic national elections exhorted voters to "take Golkar's money, but vote for someone else." See Friend 2003.
11. While no systematic studies have compared skills and experience across levels of government, greater prestige and higher stakes and living conditions at central levels are likely to attract more competent individuals.
12. John Stuart Mill raised a related argument in *On Representative Government*. He worried that in a decentralized state, "the local representative bodies and their officers are almost certain to be of a much lower grade of intelligence and knowledge, than Parliament and the national executive."
13. The World Bank has introduced a local government reform platform within its Country Assistance Strategy for 2004–7 to address these information gaps and help develop a system for monitoring and evaluating regional performance.
14. Ferdinand Marcos ruled the country as a virtual dictator from 1964 to 1985.
15. The study was based on nine separate surveys covering 1,100 households; 80 municipal administrators, health officials, and education officials; 20 provincial administrators, health officials, and education officials; 160 workers at government health facilities; and 160 school principals (Azfar et al. 2000).
16. Unfortunately, the survey did not include national officials, so we cannot determine if the correlation is stronger than at the national level.

17. See especially Rood 1998; Alonzo 2003; and USAID 1999.
18. For an extended discussion, see Racelis 2000.
19. *Galing Pook* means means “place of excellence.” The Ford Foundation provided seed funding for the awards; today the Galing Pook Foundation raises money from private sources, both local and international.

“The Galing Pook winners have become models of good practices in local governance. Their programs have been documented, published, studied and visited by countless local and national government personnel, academics, students, media practitioners, civil society leaders, and ordinary citizens from the Philippines and abroad. Local chief executives and program managers of these programs have become sought-after resource persons in conferences and have served as mentors to other LGU’s that have adopted their programs. Schools of public administration and other institutions have used the Galing Pook case studies in their academic courses and training programs. The awards *have* served as a seal of good housekeeping on program excellence and *have* opened many windows of opportunity in terms of accessing funds, *particularly* from donors.” See www.inq7.net/globalnation/galingpook/about_gp.php.

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