



Realising the promise of partial decentralisation

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4. Realising the promise of partial decentralisation

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Summary

A well-established argument, pioneered by Musgrave (1959) and Oates (1972), states that devolving responsibility to subnational governments leads to better economic and governance outcomes. However, the empirical evidence on this has been mixed. In explaining these mixed outcomes, this chapter identifies two factors missing from this analysis on the impact of decentralisation, namely: that it depends upon prevailing political incentives that govern the behaviour of public sector bureaucrats and service providers, and that the design of decentralisation is inherently a political decision that may deviate from economically efficient solutions. Incorporating these factors, this chapter shows that most decentralisations are partial, specifically with regard to fiscal decentralisation, often with a mismatch between devolved responsibilities and accountability. It concludes that, nevertheless, increased contestation in local elections has the potential to lead to improved service delivery through increasing legitimacy of government and changing social norms.

It is easy to be pessimistic about decentralisation in developing countries today. Three decades of increasing responsibility of subnational governments has not improved service delivery outcomes. One reason is that the accountability of service providers is an important ingredient in service delivery (World Bank 2003), and it has not always been devolved. In Pakistan, while responsibility for education has been given to districts, teachers remain accountable to the central administration rather than to local-level politicians. Some countries are reversing course. Tanzania, for example, has recentralised revenue-raising

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authority, making local governments even more dependent on fiscal transfers from the centre. In addition, the wave of authoritarianism that has swept the world in recent years (2014–22) has greatly reduced the policymaking and fiscal powers of local governments.

We strike a more optimistic note here for two, related reasons. First, improvements in service delivery come about not just from bureaucrats' being accountable to elected political leaders but also from changes in the professional norms governing behaviour in public service. Second, the past two decades have witnessed a rise in political contestation at the local level. And the characteristics of local political contestation – the quality of candidates running, reduced 'vote-buying', voters' knowledge of local corruption and other performance criteria – have been shown to improve policy outcomes. They do so by strengthening the legitimacy of government in general and by influencing the norms of local-level bureaucrats and service providers even if they are not accountable to local politicians. Taken together, these findings make a case for decentralisation as an inescapable part of the process of economic development.

The chapter has four parts. In Section 4.1, we review the original argument for decentralisation based on economic efficiency, following Musgrave (1959) and Oates (1972), and note its mixed results. In Section 4.2 we interpret the disappointing outcomes as stemming from two factors missing from the Musgrave–Oates principles. The impact of decentralisation depends upon prevailing political incentives that govern the behaviour of bureaucrats and service providers in the public sector. And the design of decentralisation is inherently a political decision that may deviate from the economically efficient solution. Incorporating these factors, we show that most decentralisations are partial, often with a mismatch between devolved responsibilities and accountability. Furthermore, this partial decentralisation is an equilibrium that balances competing political forces, making it difficult to improve development outcomes by tinkering with the allocation of functions. Nevertheless, in Section 4.3, we show how the increased contestation in local elections and the characteristics of these elections has the potential to lead to improved service delivery. The fourth section describes the key mechanism here, which is based on increasing legitimacy of government and changing social norms. The conclusions briefly assess the prospects for decentralisation's realising its original promise.

4.1 The promise and shortcomings of decentralisation

Why should devolving responsibility to subnational governments lead to better outcomes? The original arguments, pioneered by Musgrave (1959) and Oates (1972), rest on two, separate foundations. The first, often called the 'subsidiarity principle', stems from the allocative function of government in Musgrave's three functions of government (the other two being stabilisation

and redistribution). When there is an externality or public good, government should intervene to allocate resources so that the externality is corrected or the public good provided. When this externality or public good has a spatial dimension, then the responsibility should be given to the smallest jurisdiction that encompasses that area. For example, sanitation services should be provided by the government of the local community that generates the solid waste.

The second foundation is based on the heterogeneity of preferences. Different communities will have different demands for publicly provided goods and services. For instance, communities with young families may have greater demand for public schools than those with older people. Subnational governments responding to local preferences would lead to a better distribution of public resources than a central government responding to average citizens' preferences.

Compelling as these arguments are, the experience with fiscal decentralisation in developing countries has been decidedly mixed. The delivery of basic services did not improve across the board. Previously under-represented groups, such as the poor and ethnic minorities, did not see their preferences systematically reflected in policy decisions at the subnational level (Mansuri and Rao 2012). Several countries including Brazil ran into macroeconomic difficulties as some large provinces over-borrowed, knowing they were 'too big to fail' (Rodden, Eskeland, and Litvack 2003).

The Musgrave–Oates arguments were founded on the assumption of a benevolent government, which was clearly violated in the real world. Even if it were appropriate (for spatial reasons) for a subnational government to be responsible for the public good, the incentives and capacity of the local administration to deliver were often severely limited. In Uganda, lower tiers of government lacked proper accounting practices that were a requirement for receiving funds. As a result, they received less money than before decentralisation and spending on primary health care fell (Akin, Hutchinson, and Strumpf 2001). In addition, many subnational entities suffered from elite capture, so that local preferences were not reflected in local service delivery. Indonesia introduced 'village governments' with locally chosen village heads accountable to village councils that would determine budget priorities. But, since the village heads chose the members of the council, accountability to the villagers was weak: only 3 per cent of the village proposals were included in the district budget (World Bank 2001). Decentralisation here simply multiplied the problems of patronage politics. Finally, Musgrave's subsidiarity principle applied only to the allocative function of government; decentralisation may have undermined the stabilisation function.

Different stakeholders responded to the shortcomings of decentralisation in different ways. International development partners, such as the World Bank and USAID, intensified what they were already doing, but at the subnational level. Noting that subnational administrations lacked capacity, the World Bank scaled up its capacity-building programmes to train local officials

in public expenditure management. Observing the potential for elite capture at the local level, USAID accelerated its participatory programmes at both national and subnational levels. As we show below, these efforts were addressing the proximate, rather than the underlying, causes of the problem.

Where countries had embarked on major decentralisation efforts only to see development outcomes deteriorate, their governments often reacted by slowing down, stopping, or even reversing the decentralisation. In Pakistan, while political decentralisation to the third tier had been achieved, fiscal decentralisation started slowly and, when the results in terms of service delivery were not encouraging, slowed down even further – to the point where the fiscal system in the country is still described as ‘centralised’ (Tunio et al. 2020). A review of Tanzania’s Local Government Reform Program suggests that, while the structures of decentralised governance were in place, the real power remained at the national level, partly due to lack of capacity at the local level to counteract that power. As a result, Ewald and Mhamba (2019) suggested that Tanzania’s local government programme is entering a phase of ‘recentralisation.’

These responses did not address the underlying problem, as our co-authors and we suggested (Ahmad et al. 2006). That problem is one of politics as the foundational driver of incentives and norms of behaviour in public sector organisations (Khemani 2019; Horn 1995; World Bank 2003; World Bank 2016). Although prolific work in political science has entered into the ‘black-box’ of government agencies for years, the focus has mostly been on the formal institutions of bureaucracy set up by elected legislators in developed countries like the United States, the United Kingdom, and New Zealand. (Horn (1995) is an early comprehensive account that remains relevant).

The World Bank’s (2003) report ‘Making Services Work for Poor People’ brought an economic framework to the accountability problem of government and service delivery in developing countries. It suggested that the success of government intervention to correct market failures or achieve redistribution depended on two accountability relationships: (i) between policymakers and service providers; and (ii) between politicians and citizens. When one or both of these relationships is weak (for example, teachers are absent from school, social transfers are given to the non-poor, and so on), then service delivery outcomes are disappointing, at both national and subnational levels.

While decentralisation could in principle strengthen accountability – by enabling policymakers to monitor service providers more closely and citizens to vote local politicians into or out of office based on their performance – the way it was practised risked making existing problems worse. Politics in the developing world has suffered acutely from the maladies of patronage and vote-buying (World Bank 2016). Yet decentralisation reforms proceeded by ignoring politics and focused on capacity-building among local officials and fiscal transfers from central ministries. For instance, Callen et al. (2020; 2018) showed that political incentives in Pakistan drove how many doctors were provided to constituencies but not their performance in their

jobs. Absenteeism among doctors was widespread, and particularly so among those doctors with political connections. District bureaucrats reported political interference when they attempted to discipline absent doctors. Politics is often geared towards providing patronage jobs in government, rather than holding workers accountable for service delivery. Decentralisation in Pakistan simply extended this form of patronage politics to local levels (Liaquat et al. 2019).

Although decentralisation meant that citizens could influence decisions about their district's budget allocations, if those local governments lacked their own tax base, they were dependent on the central government for revenues. Even when these revenues were determined by a formula governing intergovernmental transfers (as in India or South Africa), they were subject to political manipulation by central governments (Khemani 2007). Some local governments in Nigeria blamed their failure to deliver services on the capricious nature of transfers from central government (Khemani 2006; Rodden 2002).

The various responses by stakeholders to the mixed record of decentralisation sometimes exacerbated the problem. Strengthening capacity by training officials in accounting could not help if those officials were not held accountable for their actions. Moreover, the reason these officials were unable to manage budgets may be because they had not had the experience of managing budgets. If local officials gain some experience with managing budgets, they may over time improve outcomes. But, if at the first sight of poor performance the decision is made to recentralise, they may never gain that experience, so outcomes remain weak. Likewise, in the case of education in Pakistan, one way to address the problem of mismatched accountability of teachers and the education system may be to make the teachers employees of the district – that is, to further decentralise. Yet the reaction has been to slow down the decentralisation process.

These difficulties appear in sharp relief when we realise that all decentralisations are partial, in the sense that not all sectors or functions are devolved to subnational units (Devarajan, Khemani, and Shah 2009). For instance, in Pakistan responsibility for education was transferred to the districts but teachers remained employees of the provincial government. In South Africa, expenditure responsibility for health, education, and social security was devolved to provincial governments without the corresponding revenue responsibility (Ahmad et al. 2006). In Brazil, it was the reverse – revenue responsibility was devolved but without expenditure authority. In many countries, local governments have discretion over current expenditures but the central government prescribes or controls capital expenditures.

The implication of decentralisation being partial is that local governments cannot be held responsible by citizens for the allocation of the local budget, and hence for the outcomes of local public spending. Voters cannot make the local government accountable for performance. In fact, citizens are more likely to hold national government to account for performance – even on

items that are the responsibility of the local government.¹ Knowing this, local politicians do not have an incentive to provide the best budgetary allocation to their citizens. They may instead choose to target resources to narrow interest groups who would vote for them. Indeed, disadvantaged groups may vote for people who are 'close' to them (that is, based on their identity) if the local government does not have enough discretion in protecting them from harassment and violence (Varshney 2005). This kind of identity-based voting further undermines political accountability and hence outcomes.

Meanwhile, the central government will be held accountable for public policy outcomes, and so it may use fiscal transfers as a way of ensuring its re-election, by targeting those local politicians who provide political benefits and returns while withholding funds from those who do not. The result is a low-level equilibrium where partial decentralisation has failed to strengthen (and may have weakened) the two accountability relationships for service delivery. Partial decentralisation also undermines the two foundational principles of Musgrave and Oates. Functions may not be devolved to the smallest jurisdiction that encompasses the externality if some of the functions are retained at a higher level. And lower-level governments may not be able to reflect local citizens' preferences if higher-level governments either provide some of these public goods, or lack the incentives to design decentralisation to reflect local preferences.

Even more troubling is that fact that the degree and nature of partial decentralisation are typically the result of multiple, opposing forces (Faguet and Shami 2021). Central-level bureaucrats resist decentralisation because it reduces the 'rents' they earn by controlling service providers. Conversely, these service providers may resist being accountable to local-level politicians who can observe their behaviour more closely. The outcome could be the complex decentralisation observed in Pakistan's education (with teachers being employees of the provincial government, but schools a district responsibility). This may also explain why, when the initial results of decentralisation are poor, there is often a groundswell of support from political and bureaucratic elites to slow down or reverse the decentralisation, rather than to further decentralise.

So politically driven partial decentralisation may lead to a governance trap, calling into question many conventional recommendations made to correct the shortcomings of decentralisation. For example, simply asking central governments to increase their allocation to local governments may not help if those local governments are not held accountable for allocating their budgets. Not devolving responsibility in essential functions (like health and education) because local governments 'lack capacity' is also unhelpful. Local-level governments cannot be held accountable by their citizens unless they have discretion over their budgets, and they may not be able to build capacity unless citizens can closely scrutinise public expenditure management.

Not only is the analysis and empirical evidence leading to discouraging prospects for decentralisation, but recent developments seem to reinforce the pessimism. The rise of political authoritarianism at the national level in

the last five years (2017–22) seems to have created hurdles for fostering political representation at the local level. Yet, despite these underlying flaws and concerning developments in the real world, the prospects of decentralisation remain promising.

4.2 Political decentralisation has taken hold, even as fiscal decentralisation remains partial

Decentralisation in developing countries relies on instituting local elections to select local political leaders able to wield some power over local taxation, public spending, and implementation of national policies. While the degree of local fiscal and policy autonomy varies across countries and over time, a common feature of decentralisation is the establishment of political contestation for local government leadership positions.

In India, the immediate implication of the 1993 landmark decentralisation reform, the Panchayati Raj Act, was in local politics. Even as fiscal powers provided to local governments varied across state governments, the new constitutional amendment effectively mandated the holding of regular elections for the political leadership of local government bodies. Although panchayat institutions had existed historically, the decentralisation reform brought a sea change in how the leaders of those local governance institutions would be selected. After decades of no elections in villages and districts, post-1993 India has been holding local elections regularly.

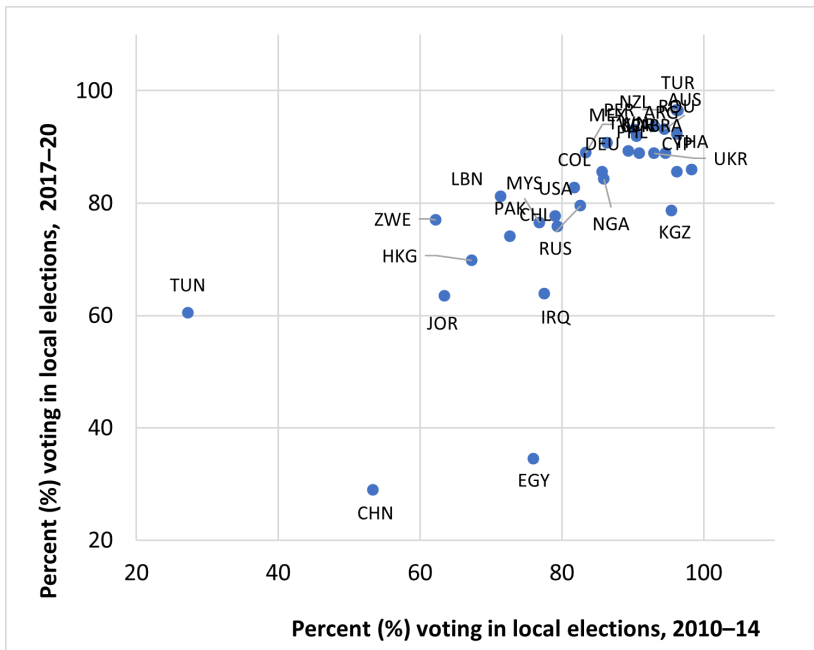
In countries across Africa, decentralisation has primarily consisted of creating space for local political leaders to monitor the existing local administration, where bureaucrats are appointed to implement national policies (Habyarimana, Khemani, and Scot 2018). With political decentralisation, local administrative units (districts) have taken on a distinctive characteristic of local government: the sharing of powers and responsibilities between bureaucrats appointed by the national government and politicians elected by the people to the local council. With local governments dependent on the central government for fiscal revenues, the chief administrative officers appointed in districts are accountable to national ministries for the spending of transferred revenues. Local politicians have autonomy over spending any local revenues they collect through taxation or fees. But their revenue generation powers are both restricted by national governments and underutilised by local politicians. In Tanzania, when local politicians controlled local property taxes up to 2016, they had weak incentives to collect these taxes, because the incidence of property taxes would primarily fall on the local propertied class, who tended to be local politicians (Government of Tanzania, Prime Minister's Office for Regional and Local Government 2013). From 2016 property tax collection was recentralised.

In Brazil and Pakistan, political decentralisation was pursued by military dictators as a way to build their legitimacy (Faguet and Shami 2021; Ferraz,

Finan, and Martinez-Bravo 2020). In Indonesia, political decentralisation was part of the overall democratisation of the country following the downfall of the Suharto regime in 1998 (Hofman and Kaiser 2006; Martinez-Bravo 2014). Research on decentralisation in historically centralised countries has highlighted a shared explanation: the incentives of national leaders to pursue *political* decentralisation (Faguet and Shami (2021) and Khemani (2015) provide a review). The extent to which the newly created or invigorated local political jurisdictions would have powers over local public policy and service delivery, or receive revenue transfers to spend at their discretion, remained a decision of central governments, which controlled key revenue bases. While the fiscal, service delivery, and policymaking powers of local political leaders have waxed and waned, the enduring feature of decentralisation is local elections for leadership positions in local government.

Cross-country data on local elections began to be available in the early 2010s, starting with Wave 6 of the World Values Survey (WVS; Haerpfer et al. 2022). Waves 6 and 7 asked people whether they voted in local elections. Figure 4.1 plots the 32 countries covered by both waves according to the percentage of respondents who answered that they vote ‘always’ or ‘usually’ in local elections. In most countries, more than 70 per cent of respondents

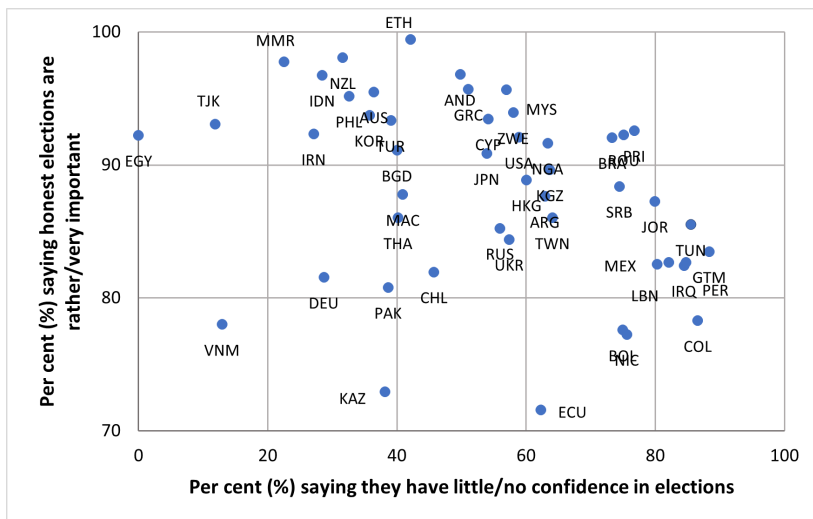
Figure 4.1: Per cent of respondents who say they vote in local elections



reported voting in local elections. China is an outlier (although still not zero, because of its village elections). Egypt stands out as having moved from 76 per cent voting in local elections in 2012 to only 34 per cent in 2018, while Tunisia moved in the opposite direction.

In addition to voting, citizens also participate as contenders for local leadership positions. While there is no similarly comparable cross-country data, micro-empirical research in countries as varied as Brazil, India, Indonesia, Pakistan, and Uganda shows significant political contestation in local government elections. In the Indian state of Bihar, an average of 10 people contest for the position of village *mukhiya*, or head of the village government (Khemani, Chaudhary, and Scot 2020). In Brazil, decentralisation helped dilute the influence of local economic elites, enabling new political contenders to emerge (Ferraz, Finan, and Martinez-Bravo 2020). In Yogyakarta, Indonesia, a detailed field study documented a dramatic change in village government leadership over the previous 10 years, away from the control of the traditional landed elite and towards leaders from more modest family backgrounds (Bersenschot, Capri, and Dhian 2021). An experiment to encourage ‘good’ citizens to enter village politics in Pakistan had a large impact, suggesting that citizens were willing to become local political leaders to serve their communities (Gulzar and Khan 2021).

Figure 4.2: People think having *honest* elections is important, even in countries with low confidence in elections



Source: World Values Survey, Wave 7 (2017–20), Q234, <https://www.worldvaluessurvey.org/WVSDocumentationWV7.jsp>
 Notes: The questions asked: ‘How important is having honest elections?’ and ‘How much confidence do you have in elections?’ The questions are about elections generally; the WVS does not distinguish between respondents’ views of national vs. subnational elections.

Even where traditional leaders play a role in local governance (as in Africa), locally elected leaders are the agents tasked with managing public goods and services financed by the state (Baldwin and Raffler 2019). For example, in rural Zimbabwe, 79 per cent of respondents to Round 4 of the Afrobarometer survey cited traditional leaders as having some or a great deal of influence over local governance – but the areas of that influence were restricted to community matters such as dispute resolution. Responsibility for managing schools and clinics was assigned to local and central government.

The WVSSs also explored people's aspirations for improving the quality of elections, even when they found low confidence in how elections were currently functioning. In Figure 4.2, the vast majority of respondents across countries thought that having 'honest' elections is very/rather important for their lives. Another module asks whether the respondent has 'confidence' in different institutions, including elections.² In the median country in the sample, 56 per cent of respondents say they have little or no confidence in elections. Among the countries with more than 80 per cent reporting little or no confidence in elections are Iraq, Lebanon, and Tunisia, countries with weaker institutions of democracy and growing political unrest in recent years. Yet, even in these countries, more than 80 per cent say that having 'honest' elections would be very/rather important.

4.3 The potential of political decentralisation

How can increased contestation in local elections lead to improved service delivery? At any level (national, regional or local) elections influence public policies and service delivery, and thence development outcomes, through three channels:

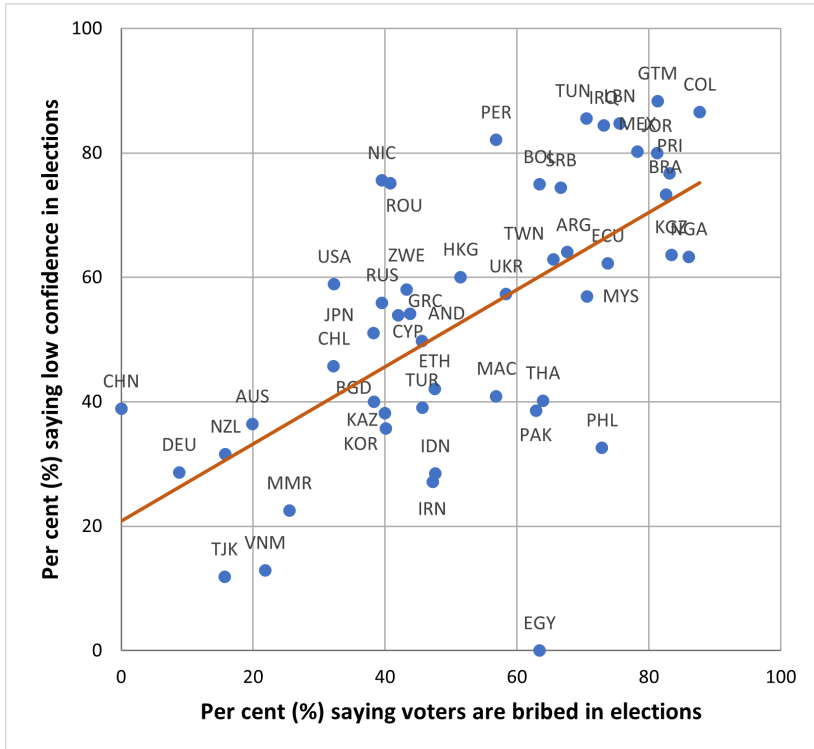
- a. Incentives: local political leaders could take actions to further objectives of election/re-election into public office for the rents or benefits that office holding brings.
- b. Intrinsic motivation: local elections could change the types of citizens who enter political contests and get selected as local leaders.
- c. Norms and preferences: local elections could shape people's views and expectations about others' political behaviour (norms), and what to demand from public policy and political representatives (preferences).

The first two channels are well studied by economists,³ while the third is an emerging area of such research in economics.⁴ The impact of *local* elections through any of these channels depends upon what powers are decentralised and what actions locally elected leaders can take. In the context of partial decentralisation, when limited formal powers are assigned to locally elected leaders, informal channels of intrinsic motivation and norms may play a

larger role. For example, in Uganda, locally elected leaders play informal roles of monitoring and supervision of frontline service providers, rather than wielding formal powers over the nature of contracts with these providers (Habyarimana, Khemani, and Scot 2018).

The impact of elections, whether national, regional, or local, also depends upon whether the electoral mechanism is indeed working fairly (opposition candidates are not prevented from running; votes are counted fairly, and so on). These issues cannot be taken for granted. For example, if votes can be purchased through cash or the promise of other targeted benefits in exchange for the vote, local elections are likely to yield different incentives and different types of contenders than if votes cannot be bought.⁵ The WVS asked a series of questions about malpractices in elections – whether votes were counted fairly, opposition candidates were prevented from running, voters were bribed, violence was involved, or the media was captured. Bribing of voters was a robust correlate of low confidence in elections (Figure 4.3). The overall picture emerging from the WVSs was that voters were aware of electoral malpractice (and thus reported low confidence in elections) but nevertheless had hopes for honest elections.

Figure 4.3: Reports of vote-buying are correlated with low confidence in elections



On average, electoral institutions tend to strengthen incentives of political leaders to perform better at both national and local levels (World Bank 2016). Yet there are clear examples where autocracies outperform democracies (Besley and Kudamatsu 2008; World Bank 2016). Research examining these differences suggests that the key question is whether leaders are selected and sanctioned based on performance in delivering public goods (Khemani 2019; World Bank 2016).

Why are some settings, within both autocracies and democracies, successful in selecting and sanctioning leaders based on performance in providing public goods, and others disastrous at it? The answer appears to be rooted in culture or norms. In the language of game theory, political institutions are games of multiple equilibria where shared expectations of how others are playing the game pin down an equilibrium (Bidner and Francois 2013; Myerson 2006; Schelling 1960). Initial sets of beliefs and expectations about how others are behaving shape an individual's behaviour, leading to an outcome of collective behaviour, whether one of high expectations and performance or one of low expectations and rampant corruption.

Viewing politics as a game with multiple equilibria (or collective outcomes, depending upon which initial beliefs are held by people), Myerson (2006) argues that decentralisation to a number of units of local government is more likely to yield successful outcomes than centralisation of power in one national government. The reason is that having several units, rather than one, makes it more likely for political leaders to emerge with a reputation for effective governance. The substantial variation within countries in governance outcomes at local levels supports this view. Evidence from studies on the persistent effect of institutions that have long since disappeared can be interpreted in terms of historical experience shaping beliefs and norms (World Bank 2016).⁶ For example, Dell, Lane, and Querubin (2018) found that in present-day Vietnam norms of cooperation for local public goods are more likely to be found in places that were in the past governed by strong state institutions (Dai Viet) rather than weak states (the Khmer empire of Cambodia). This evidence can be interpreted as supporting Myerson's theoretical argument of reputation being built through the experience of good governance, changing beliefs, and allowing local governments and society and the economy at large to function better.

Public policy therefore could focus on the potential of decentralisation to help shift beliefs and norms and enable better quality leaders to emerge – that is, to facilitate the selection of better equilibria along the lines of Myerson's characterisation of political institutions as games of multiple equilibria. This means approaching the design of government agencies as a technical problem – asking which tasks of public policy and how much fiscal resources to assign to which type of agent, elected politician, or appointed bureaucrat. Political decentralisation – the existing jurisdictions where local political leaders are being selected – sets the context in which policymakers can design the most appropriate agency mechanisms through which to achieve government objectives.

For some emergent policy objectives (such as mitigating and adapting to climate change or managing an influx of refugees), government agencies find themselves needing to address problems of misinformation among citizens. For example, in advanced democracies, where electoral institutions are functioning well, the ‘median’ or ‘pivotal’ voter can vote against environmental regulations and taxes because they do not believe the science of climate change, and for right-wing parties that refuse refugees, because they are susceptible to misinformation about the impact of refugees.⁷ In developing countries, raising revenues to finance public goods for economic development runs into tax avoidance by citizens.⁸ Tariff policies to cover the costs of utilities that provide water and electricity are protested by citizens.⁹ Restrictions on the quantity of water that can be abstracted are met with farmers’ agitations and non-compliance.¹⁰ These are examples of government addressing a public or social problem that individuals or markets cannot. The role of government is not only one of responding to citizens’ demands and being held accountable for it but also of shaping those demands as problems of a ‘public good’ nature that become evident to technical agencies. To pursue these roles, government agencies would need to build legitimacy for taxation, price reforms (such as removal of energy subsidies), and environmental regulations (such as quantity restrictions on the use of scarce water resources).¹¹

4.4 Building legitimacy and changing norms through decentralisation

Even after we take full account of the growth of concerns about local capacity and elite capture, as well as reluctance to give up powers and resources, we seek to show how decentralisation can nevertheless be designed to pursue objectives that are in the interests of national policymakers and the public. Local political contestation holds untapped potential to build legitimacy of government agencies. It can also strengthen professional norms in bureaucracies to improve service delivery. This potential lies in the selection of local leaders with intrinsic motivation to pursue the public good, and the role of local politics in shifting norms in public bureaucracies.

For example, Habyarimana, Khemani, and Scot (2018) found that district bureaucracies in Uganda perform better at delivering public health services in places where locally elected politicians have higher integrity, measured using survey modules developed by psychologists to assess moral disengagement. Case studies of Ugandan districts suggest that locally elected politicians can play both negative and positive roles in the delivery of services – interfering to obstruct versus monitoring to facilitate better services. The integrity of local politicians determines whether they obstruct or support technical officers in delivering services within the complex organisation of local government. Other studies in different contexts, such as Callen, Gulzar, and Rezaee (2020), referred to earlier, show how the integrity of local politicians

can shape whether they collude with frontline service providers to extract rents or encourage them to perform.

Research on how local politics might shape norms of behaviour in bureaucracies and policy preferences among citizens is nascent. Nevertheless, available analysis of the persistent effects of historical institutions points to norms and preferences as important channels to investigate (as mentioned earlier, and argued in World Bank (2016) and studies like Dell, Lane, and Querubin (2018)). Another example is Pandey (2010), who provided evidence linking historical institutions to current political behaviour and the delivery of public services (or lack thereof). She took advantage of historical variation in the power given to landlords across districts in colonial India. Landlord districts that had more oppressive revenue systems gave greater power to elite landlords rather than to peasants. In districts with non-landlord control, village bodies that were more representative of peasants were responsible for collecting revenue. The results show that, in formerly landlord-controlled districts, village elections today are more likely to be won by leaders belonging to high-caste groups, who are the social elite. These high-caste groups are less likely to send their children to the public schools in the villages compared with low-caste groups. Teacher effort is significantly lower in villages in ex-landlord districts. When results are analysed by teacher caste, the difference in teacher effort between ex-landlord and ex-non-landlord districts is significant for high- and mid-caste teachers. For low-caste teachers, the difference in effort between ex-landlord and ex-non-landlord areas is not significant. Finally, student test scores and school infrastructure are significantly worse in villages belonging to ex-landlord districts.

The above example shows that behaviour varies a great deal across and within villages sharing the same formal political institutions of local democracy and economic conditions. The variation in behaviour can be traced to historical institutions of colonial revenue administration and even older institutions of caste networks, suggesting that these behaviours can be described as long-standing norms. The distinction between norms and incentives is important because long-standing norms among thousands of state personnel limit the ability of reform leaders to change incentives simply by changing the formal rules of the game. Banerjee, Duflo, and Glennerster (2008) and Dhaliwal and Hanna (2017) provided evidence from India that reformers who tried to use new technology to monitor frontline health workers and strengthen their incentives ultimately failed to implement or sustain these reforms.

Political norms of behaviour – what citizens demand from the state, and how they expect others to be acting in the public sector – can explain why even well-intentioned reformers in powerful political positions find it difficult to institute change. Consider the following example. Rational expectation among ‘ordinary’ (that is, non-office-bearing) citizens is that other citizens will vote for politicians who share their identity or ideology, and who provide targeted private benefits. This applies even though, in equilibrium, the consequences are harmful for everybody, since voting on the basis of

identity and private benefits weakens political incentives to provide public goods. Among those who have leadership or entrepreneurial qualities and become contenders for political power, the rational expectation will be that other contenders are entering the fray to seek private rents from public resources. Among office-bearing citizens or state personnel, all the way from high-level bureaucrats to frontline providers, the rational expectation is that their peers do not care about doing their jobs well because there are few formal or informal (sanctions) rewards for (bad) good performance. The service delivery organisations of the state would thus lack both incentives and non-pecuniary sources of motivation (such as peer pressure and professional norms). When a reform leader tries to strengthen incentives in this low-performance setting, those reforms are often resisted and thwarted by well-organised interest groups, such as unions of teachers and doctors, or other politicians who seek rents from the status quo.

Theoretical analysis of how changes in norms come about points to a triggering role for political contestation and the leaders selected through it. Leaders can be 'prominent agents' who signal a shift in beliefs among society at large (Acemoglu and Jackson 2015). Growing experience with political engagement and the learning that comes from it, such as through frustration and indignation with bad outcomes, can create fertile conditions for change in political norms (Bidner and Francois 2013). Recent theoretical developments on the management of complex organisations, in both the private and public sectors, also point to the role of leaders in shaping organisational culture. For example, Akerlof (2015; 2017) defines the concept of 'legitimacy' of leaders as one of getting lower-level personnel to follow the organisation's objectives of their own accord, through peer-to-peer interaction, without incentive payments and monitoring from the top.

In each of these theories, changes in norms, information, and communication that shift expectations about how others are behaving are the necessary elements. Where norms support a less-than-desirable outcome, shifting to a new norm requires information sharing and communication among the actors to update their beliefs about how others are behaving. In some models, the information is communicated through the types of leaders who are selected (Acemoglu and Jackson 2015). In others, information is gathered and shared over time among citizens through the experience of political participation (Bidner and Francois 2013). The role of political leaders and processes of political participation as *the* channels for sharing information that shifts norms is reminiscent of Ostrom's (2000) classic work on norms for collective action.

The literature on the persistent effects of historical institutions, long after the formal institutions have disappeared and been replaced by others, is useful in supporting the argument that changing norms need not involve changing formal institutions. An example is the difference in economic performance across democracies and autocracies (Besley and Kudamatsu 2008; World Bank 2016). Shifting norms need not involve introducing elections into authoritarian regimes or, conversely, removing elections or changing electoral rules

in democracies. The growing evidence of significant variation in economic outcomes within countries, across places sharing the same formal political institutions, shows how the *functioning* of political contestation is what matters. To illustrate what this means, it may be worth repeating an example cited earlier – in places where the currency of political contestation is, literally, to buy votes, municipal governments under-invest in public health services and a larger proportion of children are undernourished (Khemani 2015).

The easy part of politics is strengthening the incentives of political leaders to defeat opponents and remain in office. The difficult part is to change the political norms of thousands of ordinary citizens, not to mention mid-level bureaucrats and frontline providers, so that winning strategies move away from things like vote-buying and exploiting ideological divisions among voters towards pursuing broader public goods. Prevalent political norms explain why, despite intense electoral competition and powerful leaders who emerge speaking the language of reforms, it is hard to get frontline service providers, such as teachers and community health workers, to deliver (Callen, Gulzar, and Rezaee 2020; Callen et al. 2016). Even though they wield formal power over the frontline workers of the state, reform leaders can be thwarted in their attempts to exact accountability from them (Banerjee, Duflo, and Glennerster 2008; Dhaliwal and Hanna 2017). Effective reform in this context is not the passage of a new law or act. The reform that matters is in the minds of the thousands of human beings who run state bureaucracies and implement public policies.

At the same time, the evidence of persistent effects of history and path dependency raises the question of historical determinism. Are countries doomed to run the long course of history and evolve norms over time? Can policy actors do anything in the short run to change norms? Political decentralisation offers opportunities for reform leaders to change political norms in the short run by raising three questions: (i) what is the goal the state hopes to achieve? (ii) Who are the agents whose actions will collectively shape that outcome? (iii) What resources and incentives do each of those agents have?

The policy experience of the Brazilian state of Ceará illustrates how a mechanism design approach can work for reform leaders to bring about dramatic change in the short run (Khemani 2019; Tandler and Freedheim 1996). The goal of a series of reformist governors of Ceará was to effectively deliver public health services, such as vaccination. The agents whose actions would collectively shape whether vaccinations are effectively delivered were the frontline health workers, as well as the locally elected mayors and the nurses these mayors hired, who had supervisory powers over frontline workers. Apart from the physical resources (such as vaccines, cold chain, and other equipment) needed to accomplish the goal, the governors confronted the lack of incentives and professional norms among nurses and health workers because of local patronage politics. A new cadre of health workers was meritocratically recruited by the governor's office, trained, and given credible signals that their career trajectory would depend upon their performance. Credibility

came from broadcasting information about the hiring of these workers, the goals they were expected to pursue, the welfare gains that would come from achieving them, and what people could do if they did not see these workers performing. Those candidates who did not get the job effectively became monitors of those who did. Radio broadcasts about the new cadre of workers made public health services politically salient, changing the incentives of mayors. Mayors began to compete on facilitating health workers to deliver rather than distributing government jobs as patronage.

To be sure, the kind of initiative undertaken by the governors of Ceará is far from guaranteed to work in other places. Incumbent political parties in other places may not have the credibility to be effective with media broadcasts, or they may not enjoy the fiscal and political space for meritocratic recruitment of a new cadre of workers. Mayoral politics at the local level in other places may be more clientelistic and resistant to change, even after a media blitz. However, approaching the problem of state capacity as a problem of incentives and norms that is rooted in local politics (the Ceará strategy) is instructive. And it can be adapted to the unique contexts of different countries. The starting point would be to identify the existing local-level jurisdictions where political contestation is happening and examine how this local-level politics shapes incentives and norms across different types of state agencies.

Conclusions

The mixed results of fiscal decentralisation in developing countries called into question the original Musgrave–Oates foundations of subsidiarity and matching local policies to local preferences. Research on government policymaking and service delivery as a series of accountability relationships, and the fundamental role of politics in shaping those relationships, reinforces this questioning of traditional public finance conclusions based on assumptions of benevolent government. It also suggests that all decentralisations will remain partial, in a low-level equilibrium. The tendency towards greater autocracy around the world could lead to greater pessimism about decentralisation in the future.

In this chapter, we have tried to strike an optimistic note by exploring the potential of political contestation at local government levels. Political decentralisation has taken hold in the developing world and is likely to remain an important feature of the landscape. It offers opportunities to improve service delivery outcomes even if fiscal decentralisation is only partial. Political decentralisation has led to more and better-motivated people seeking public office in local elections. In turn, this phenomenon has the potential to strengthen the legitimacy of government as a whole and shift social norms so that bureaucracies perform better. Neither of these changes is guaranteed. However, approaching fiscal decentralisation as a mechanism design problem geared towards strengthening state legitimacy and shifting norms can harness

the potential of decentralisation to deliver on its original promise of better outcomes and higher welfare.

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Endnotes

- ¹ Chhibber, Shastri, and Sisson (2004) asked voters in India which tier of government they held responsible for the public goods they cared most about: medical facilities, drinking water, roads, education. The majority indicated it was the state government.
- ² Elections generally; the WVS does not distinguish between respondents' views of national vs. subnational elections.
- ³ Some pioneering contributions are: Tirole (1994); Dewatripont et al. (1999); Francois (2000); Dixit (2002); Besley and Ghatak (2005); Besley (2006); Acemoglu et al. (2008); Alesina and Tabellini (2007; 2008). Dal Bo and Finan (2018) reviewed the recent accumulation of evidence on political selection.
- ⁴ Bidner and Francois (2013) provided a model where people learn about how others are behaving in deciding whether to punish corrupt politicians. Acemoglu and Jackson (2015) provided a model where 'prominent agents' signal a shift in norms in society.
- ⁵ Khemani (2015) found variation across local governments in the Philippines in the extent to which voters are bribed, and this variation is correlated with the performance of local governments in delivering public health services. Fujiwara (2015) found complementary evidence that more effective enfranchisement (in Brazil) leads to better public health services.
- ⁶ Reviewed in Nunn (2009).
- ⁷ Blanchard and Tirole (2020) described the protest movement in France being triggered by a 'green' tax on gasoline. Alesina and Stantcheva (2020) described how misinformation about immigration that is prevalent among European voters shapes their preferences for public policies.
- ⁸ For example, Besley (2020) provided a view of the problem of non-compliance with taxation in developing countries.

⁹ Ianchovichina, Burger, and Witte (2020)

¹⁰ Al-Alaween et al. (2016)

¹¹ Khemani (2020) discussed the issue of legitimacy of government agencies to pursue policies in the public interest.

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