Supporting Decentralization: The Role and Experience of the World Bank

Since its creation at the end of the Second World War to assist with the reconstruction of Europe, the World Bank (and the International Development Association IDA, which is meant for the less developed countries) has dealt primarily with central governments. Indeed its Articles of Agreement require it to lend to member governments or under a member government’s guarantee.

This approach was in keeping with the thinking of the time. Central control of power and resources had enabled governments to pull their economies out of the Great Depression and later to wage the Second World War. The application of Keynesian principles, which give a large role to central government in managing the economy, resulted in spectacular economic gains in the 1950s and 1960s. Centralization also led to rapid economic
growth and increasing world influence among Communist countries. Important elements of centralization were the creation and operation of social welfare systems and the expansion of public services, which proved extremely popular among citizens. The centralized strategies that had proven successful for rich industrial countries naturally became the model for development of the emerging nations in Africa, Latin America and Asia (Manor, 1998a). Donor agencies, including the World Bank, reinforced the centralizing tendency by preferring to work with central governments because they could execute the big projects (dams, roads, ports) felt to be essential for development.

However, the top-down approach has often failed to promote development and reduce poverty. Disappointment has been particularly high with rural development programs, many of which were initiated, designed and executed by central government representatives with little or no input from communities. There are a number of reasons why the centralized approach has not worked well.

- Central government representatives are too far removed from communities to know what local preferences and priorities truly are.
- Local people feel little sense of ownership of projects, and therefore do not sustain them.

Starting in the mid-1980s governments world-wide began decentralizing some responsibilities, decision-making authority and resources to intermediate and local governments and often to communities and the private sector. Decentralization can improve the efficiency, effectiveness and equity of government programs for several reasons:

- It empowers underrepresented groups, such as local entrepreneurs to be politically active.
It gives communities control over resources to invest in projects they care about—often education, health, rural infrastructure and other growth-promoting activities.

It creates conditions for competition and bargaining among different groups, improving efficiency (Binswanger, 1997).

World Bank’s support for decentralization

Demand from countries for assistance with decentralized strategies has exploded during the 1990s. Now over 80 percent of developing and transition countries of Eastern and Central Europe and the former Soviet Union, with widely different political orientations and economic bases, are experimenting with decentralization. The World Bank is actively supporting governments’ efforts to decentralize by conducting research, developing mechanisms for exchanging knowledge and experiences, and by offering policy advice and operational support, and coordinating with donors.

Research

The Bank has just completed a major research program to learn what countries are actually doing to decentralize, and what the impact of decentralization is on rural service delivery, economic growth and poverty alleviation. The research showed that decentralization can increase participation, improve the accountability and responsiveness of government, and lead to programs and projects which better match local preferences and are therefore more sustainable. However, decentralization does not always help to stimulate growth or reduce poverty. For decentralization programs to work well requires that countries provide adequate resources to poor areas (decentralization must not be used as a way to reduce central government transfers), mechanisms are put in place to ensure participation of the rural poor (rather than just...
the rural elite), and strong, enforceable systems of accountability and monitoring by citizens and the central government are established. Furthermore, governments must take care to address all three dimensions of decentralization: administrative, political and fiscal. Often governments transfer responsibilities to lower level governments, but not the fiscal resources to carry them out.

**Sharing knowledge**

The Bank has embarked a major new initiative to create mechanisms to make it easier for policy-makers, development practitioners and scholars to share knowledge and experiences and seek solutions to problems. It is developing an international decentralization knowledge node with partners – United Nations Food and Agriculture Organization (FAO), German Agency for Technical Cooperation (GTZ), United Nations Capital Development Fund (UNCDF), United Nations Development Program (UNDP), Swiss Agency for Development and Cooperation (SDC) and International Fund for Agricultural Development (IFAD) – to enable people interested in decentralization and participation to interact easily and share knowledge and experience on a variety of issues encountered while preparing and implementing decentralization strategies. The network will center around an electronic, interactive sourcebook containing pieces on the major issues, outstanding debates, best practices and program experiences. It is envisaged that partner agencies will take responsibility for managing a part of the sourcebook, gathering and synthesizing relevant program experience and research results. Practitioners and others will be encouraged to contribute their experiences and knowledge to the sourcebook.

Within the Bank two thematic teams dealing with decentralization issues are now active. They are the decentralization thematic team (focused on intergovernmental issues) and the community-based rural development thematic team (focused on participato-
ry decentralized strategies for rural development). These teams, comprising 180 members between them, are holding meetings, sponsoring seminars and workshops, and developing Web sites to ensure that the latest thinking on the issues is widely available.

Policy advice

At the macro level, many central governments are now seeking advice from the Bank on how to design mechanisms for intergovernmental transfers, and enhance local capacity to raise revenues, manage budgets and deliver services. These are serious issues: the design of intergovernmental fiscal relations can affect macroeconomic and fiscal balance, the provision of social safety nets, and the vitality of the private sector. For example, assigning responsibility for safety net provision to subnational governments without providing corresponding resources will likely lead to rapid erosion of the social welfare systems. Alternatively, subnational governments may meet their responsibilities in undesirable ways, such as through short-term borrowing, accumulation of arrears or public ownership of local enterprises. (See Bird, Ebel and Wallich, 1995, for an excellent discussion of the many issues that need to be considered in designing appropriate intergovernmental systems in transition economies.)

Policy advice often involves working with government to identify expenditures best handled by central government and those which would be better handled by lower level governments. In general, central government should restrict its expenditures to goods and services which provide national public goods, allowing lower level governments to handle the rest. These true central services include national defense, national roads and highways, management of foreign affairs, development and enforcement of environmental regulations, and the like. Lower level governments, with local decision-makers deciding which services to deliver, to whom,
in what quality and quantity, include construction and maintenance of local roads, irrigation networks and local market places; water and sanitation services; solid and hazardous waste collection and disposal; primary and secondary education; and other public services that benefit primarily local inhabitants (See Bird, Ebel and Wallich, 1995). Local governments can often deliver services much more efficiently than higher level governments, although the services are financed with central government transfers. Governments need not necessarily deliver services for which they are financially responsible. It is often efficient to contract the delivery of services to the private sector. This is common with solid waste collection, for example, and occurs also with the provision of health care, water and sanitation services, and many others.

Drawing on its international experience, the Bank is assisting countries analyze the issues, identify key objectives and tradeoffs among them, suggest solutions, recommend potential reforms and name potential risks and pitfalls of choosing a particular approach. For example, the Bank is assisting countries of Central Europe - which are trying to reconfigure their systems in preparation for European Union accession - on issues such as expenditure assignment, tax assignment, transfers, and impact of the intergovernmental fiscal framework on incentives for lower levels of government. It is assisting Ukraine define policies and regulations for subnational borrowing, evaluate how expenditure allocations and budgetary systems function at the subnational level, and assess the legal framework for fiscal federalism. It is providing similar support for countries in Africa, Latin America and Asia.

**Operational support**

The demand for Bank support to operations involving decentralization has exploded in the last five years. For example, while only about 2 percent of Bank-supported education projects
included decentralization strategies in their design in the early 1990s, now over 50 percent do. Projects in other sectors such as primary health care, rural water and sanitation, irrigation management, agricultural extension, natural resource management and others are now much more likely to consider roles for lower level governments, communities, nongovernmental organizations and the private sector than in the past. The Bank is supporting decentralization programs by assisting with institutional reform, developing new lending instruments, and making its own procedures for procurement, contracting and disbursement more flexible.

Institutional reform.
The Bank provides financial resources and technical assistance to governments undertaking major restructuring of their governmental institutions. For example, it assisted the Government of Venezuela in establishing a decentralized public agricultural extension service. The new extension service was intended to replace the one managed at the national level, which had proven ineffective in serving the needs of poor farmers. A major objective of the project was to empower farmers to hold extension agents accountable for results. It achieved this by decentralizing management responsibilities to the local level (if possible, to farmers’ associations), and by allowing the public agricultural system to contract private firms, nongovernmental organizations and universities to deliver extension services, provide training to extension agents, and supply technical assistance to projects. Further, it did not offer services unconditionally: rather it offered a package of financial assistance, technical assistance and training to those localities that requested it and were willing to share the costs. Now several years into implementation, the approach is proving successful. Many more farmers are now receiving services than in the past; beneficiaries express satisfaction with the relevance and quality of the services. The Bank has supported similar efforts to restructure government institutions in education, rural infrastructure, education, and primary health among others.
New lending instruments.
The Bank has developed new lending instruments, such as demand-driven rural investment funds, which enable governments to transfer funds directly to local communities (See box). With DRIFs, as with other social funds, local communities with legal standing present proposals for funding and implement sub-projects, including procurement. Typically DRIFs include a cofinancing matrix, which provides incentives to communities to undertake projects in line with national priorities, but which also permits communities to pursue their own preferences.

While DRIFs are still new and their impacts still uncertain, results from Mexico and Brazil have been impressive. In Mexico local governments and communities have implemented 30,000 sub-projects in three years with average costs 30-60 percent less than projects implemented in the traditional way. In Bank-financed projects in northeast Brazil the percentage of project funds reaching communities has risen from 45 percent to more than 90 percent. Local people are much more satisfied with the projects than in the past and are actively maintaining them. (See Wiens and Guadagni, 1998, for a detailed analysis of DRIF design.)

**Demand-driven investment funds**

Demand-driven rural investment funds (DRIFs) offer a major new means for improving the design, implementation and sustainability of rural development programs. DRIFs are mechanisms through which central government transfers funds to local governments and communities to use to address their own priorities. This approach to rural development represents a sharp break with the past, when central governments selected and implemented rural development activities, often with little input from communities - and little impact on development.
Success with social fund projects, such as DRIFs, shows that local governments and communities have shown they have, or can develop capacity to manage funds and design and implement projects successfully, given the opportunity. Indeed small local governments have demonstrated a capacity to find innovative, bottom-up solutions to problems. However, building capacity sometimes takes time. Therefore social funds should include mechanisms to ensure that governments and communities have access to appropriate technical assistance when they request it. Experience suggests several other factors are essential to success:

Beneficiaries include community groups, neighborhood associations, women’s groups, parent associations, producer associations, or cooperatives. DRIFs are similar to social funds, but operate in a much more decentralized manner. They delegate responsibility for project design, execution, and financing decisions to local organizations.

Community projects funded by DRIFs must meet specific eligibility criteria. Typically, a project may not exceed a cost limit and must be implemented within a given time frame. Beneficiary communities are typically required to contribute between 20-50 percent of project costs, with the proportion depending on the type of project. These rules provide incentives for local groups to undertake projects in line with national priorities, while permitting them to pursue their own.

Resistance to the establishment of DRIFs in many countries has come from central governments and donors concerned that the funds will be spent improperly or appropriated mainly by local elites. These problems can be minimized by taking care to inform the broad public about the fund, including its size and allocation rules. Steps can also be taken to strengthen democracy and participatory mechanisms.
Programs should include incentives for good performance. One possibility is to make additional funding contingent on community performance in meeting agreed standards. Communities that plan inclusively, honor their commitments, and account for and report on the flow of funds in a timely way would be eligible for new funding, and greater autonomy to manage annual or multiyear development programs.

Monitoring and evaluation systems which allow local people to assess the performance of their representatives must be put into place. This requires that communities have detailed information about what their governments are supposed to be doing: information campaigns are important to disseminate key facts. In addition, local people should be actively involved in defining what constitutes good performance and the tools they wish to use to monitor performance.

Evaluation must include the impact of the program on community capacity. Often, DRIFs and other social funds are intended to build local capacity and strengthen participation. Therefore evaluation must include assessment of the process through which communities identified, planned, and completed subprojects.

Changing Bank procedures. The Bank is also changing the way it implements projects, in ways that are strengthening local government and civil society. In the past special project management units were set up to oversee daily project operations and handle such tasks as procurement and the contracting of services. These were established to overcome what was regarded as weak local government capacity to manage the many complex tasks of project implementation and adhere to cumbersome Bank procedures for reporting and accounting. While this approach did help smooth project execution, it did nothing to strengthen local government capacity. Now, with Bank assistance, many local governments are taking responsibility for project development and execution – and proving that
they are quite capable of efficiently performing them, provided they have access to technical assistance when needed.

The Bank is also developing more flexible procedures for procurement, contracting and disbursement in Bank-financed projects, which are better adapted to the needs of local communities that are designing, planning and implementing small projects. This is intended to overcome a number of problems associated with normal Bank procurement guidelines:

- Competitive bidding requires the participant to have some degree of institutional and financial support, and knowledge of commercial bidding practices. This virtually excludes smaller local level organizations, unfamiliar with commercial practices.
- The practice of packaging small contracts into larger packages for reasons of economy and efficiency poses a barrier to the participation of smaller organizations with weaker administrative and financial capabilities.
- The need to specify all matters relating to procurement and disbursement early in the project cycle can be a problem in projects where the nature and quantities of goods, materials, works or services to be procured can be determined only once implementation is underway.
- Bank policies and borrower country regulations do not always permit quick and timely disbursement of small amounts of funds to individuals or groups at local levels.

Innovative ways of overcoming these problems are now being tried in many Bank-financed projects, giving smaller community groups (small-scale artisans, entrepreneurs and nongovernmental organizations) a chance to participate. These include the following:

- Bidding processes have been simplified. For example, in the Ghana Transport Rehabilitation Project a procurement proce-
dure used by the railways substituted for local competitive bidding. The Chief Railway Engineer meets with potential suppliers to assess their capacity to supply sleepers, then enters into contracts with those judged to have adequate capacity.

- Contracts are being split. This encourages local artisans and suppliers to participate. For example, in the Philippines Second Elementary Education Project, contracts up to US$3.8 million may be packaged into amounts less than US$5,000 and procured through negotiation or local shopping.

- Implementing agencies are contracting directly with community groups. In the Mexico Municipal Solidarity Funds Program committees are created specifically to implement projects. The committees, who enter into agreement with the municipality to build a specific structure, are free to procure materials and goods however they choose. They receive a partial advance of funds (from local counterpart funds) and must provide receipts to the municipal government for all expenditures.

- “Undetermined procurement” category allows project managers to specify the nature and quantities of goods and services to be procured during project implementation. The use of this category has been permitted when project design includes well-defined institutional arrangements and processes through which procurement needs are determined and incorporates mechanisms to ensure accountability for use of funds. For example, the Zambia Social Recovery Project allocates a specified aggregate amount for “self-help projects” and specifies criteria for eligibility of self-help projects, procedures for processing self-help projects, and terms and conditions of self-help project agreements. Project designers identify the total financial allocation for self-help projects, and leave it to the community to determine what and how to procure.

- To assist with quick disbursement, accounts are being opened in commercial banks. These are set up as revolving...
funds, with the government providing initial funds through an advance payment. Eligible disbursements from the revolving fund are replenished regularly from the project account held by government.

More flexible practices for supervision are also being developed. The supervision requirements that apply to larger Bank-financed projects are simply not feasible for supervision of many small subprojects taking place in remote and scattered locations. Project management units are now often handling most of the responsibility for supervision, contracting out tasks to individuals or firms (including NGOs) who have the necessary training and skills to supervise and monitor the progress of subprojects. Governmental bodies and donor agencies can check performance through random audits (looking at both financial and physical indicators) and sanction those who misrepresent their performance. Management information systems to provide permanent feedback on performance are essential tools.

Many other innovations are being tried to make it easier for local communities and community groups to implement projects at manageable cost and effort, and still satisfy Bank requirements for accountability and reporting.

**NGO involvement and procurement**

In community projects, NGO contracts are usually small and involve participation of local people. Therefore international competitive bidding and limited international bidding are normally not feasible, and even open competitive procurement is not always feasible. Shopping or direct contracting is often the most appropriate method of procurement. Direct contracting may be justified where an NGO is the only entity capable of car-
Conclusions

Decentralization can help promote local participation, improve the responsiveness of government, and result in projects which better match community demand. However, poorly designed decentralization programs may provide few benefits, and may even lead to macro and fiscal imbalances, widening regional income disparities, erosion of the social safety net, and the undermining of support for markets. The World Bank is actively involved in helping countries design programs which will support their development objectives. It is providing this support through research, information exchange, policy advice, and support for institutional reform. It is developing new lending instruments, which allow Bank funds to flow directly to local governments and community groups to use to address their development priorities. And it is making Bank procedures more flexible and better adapted to the needs of decentralized governmental systems.

The Bank is uniquely capable of assisting countries in this endeavor. It can bring its world-wide experience to inform countries of what is working in other places – and what is not – and suggest some reasons for the outcomes. The Bank also has established strong partnerships with other international develop-
ment agencies and bilateral donors, such as FAO, GTZ, the Swiss Agency for Development and Cooperation, the UNCDF and many others. These partners have expertise and resources that the Bank is lacking, such as a strong field presence and intimate knowledge of local conditions.

The old Bank was very involved in supporting the centralization of governments. The new Bank is helping governments retain its important central role, while devolving many of its functions to lower level governments who are better able to execute them.

1 The author is grateful to Hans P. Binswanger for inspiration and guidance.

2 Results of the Decentralization, Fiscal Systems and Rural Development Research Program were presented at the Technical Consultation on Decentralization in Rome in December 1997.

3 In the “new” Bank, thematic teams are groups of staff with common interests from all parts of the Bank. The teams are charged with developing participatory decentralized strategies and ensuring that they are appropriately used in the Bank’s projects and programs.

Bibliography


