

Does Decentralization Serve the Poor?

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I. Introduction¹

Decentralization and poverty reduction may be correlated, but theoretically, there is no clear-cut functional relationship between the two. Until recently development policy debates on decentralization largely focused on governance and efficiency, and hardly on poverty effects. With the aim of supposedly more effective poverty reduction agendas in mind, local and international organizations are increasingly calling for decentralization. Decentralization may affect poverty directly and indirectly: Direct effects of decentralization for poverty reduction relate, for instance, to regional targeting of transfers. Indirectly, e.g. in-efficiency in local public services and related hampered economic growth effects of sub-optimal decentralization adversely impinge on poverty reduction.

Decentralization is an instrument, not a goal in itself, for efficient and participatory governance. It certainly is not an instrument for a narrowly definable single goal and it therefore runs the risk of being over-extended and aimed at multiple goals. Still, if decentralization impacts on poverty reduction, and if the linkages under well defined conditions are generally positive and re-enforcing—given countries' institutional conditions and the social costs arising from building decentralization-related capacities—poverty reduction effects would add a dimension to the challenge of optimizing decentralization. This would unfortunately further complicate matters for any comprehensive evaluation of 'optimal' decentralization, and for related policy advice in low income countries where poverty is concentrated. In this paper we ask:

1. What are the conditions for positive or negative relationships between decentralization (of different types) and poverty reduction?
2. Does decentralization promote participation by the poor, which may be facilitated by increased supervisory powers and improved governance (e.g. reduced corruption)? We are interested in this because if decentralization increases participation and the voice of the poor, investment choices may be directed more towards a pro-poor pattern.
3. Does decentralization improve the level of inputs and quality of poverty reducing public services, e.g. health and education? Better local information and influence may help to expand and improve the efficiency of public services for the poor. Outcomes obviously depend on types of public goods and transfers as well as institutional and organizational designs.

The paper is structured as follows: first, we disaggregate decentralization into various types – political, administrative, fiscal - and present a conceptual framework for the analysis of its impact on poverty. Then we assess broad cross-country associations between decentralization and poverty reduction. Linkages between decentralization and the provision of public services, especially in the education and health sectors are explored further. In that context, selected insights from decentralization trends and their implications for the poor in selected countries are reviewed. Conclusions on the above mentioned questions and research implications are discussed at the end.

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II. CONCEPTUAL FRAMEWORK

A. Defining and measuring decentralization

Defining Decentralization

Decentralization is the transfer of authority and responsibility for public functions from a central government to subordinate governments. Governments are typically heterogeneous and complex entities that may consist of central, provincial, and local layers. Centralization and decentralization are modes of governance—i.e. ways in which control is exercised and decision-making operates within the government. Decentralization involves devolution of different decision-making powers and responsibilities to sub-units of the government. The following types of decentralization shall be distinguished in evaluating impacts of decentralization on poverty (Litvack, 1999):

- *political decentralization* gives local citizens and their representatives more power in any type of decision making, including setting standards and legal frameworks.²
- *administrative decentralization* re-distributes authority, responsibility and resources among different levels of government. Suitable capacities and institutional strength at all tiers are a precondition for the effectiveness of this.
- *fiscal decentralization* entails the definition of authority over raising revenues or access to transfers and making decisions on current and investment expenditures.

The three basic types of decentralization are interlinked and their effects for poverty reduction can not be evaluated separately. Often, decision-making is mixed between layers of government: e.g. financial decisions can be centralized, but the provision of public goods can be decentralized. It is often the case that taxation and expenditure responsibilities for various kinds of public services and transfers are not clearly assigned by the constitution or by law (Ahmad 1997). Moreover the extent to which any particular decision is decentralized or not, is often unclear. Less extensive forms of administrative and fiscal decentralization include deconcentration, with the central government merely posting employees to the local level, and delegation or shared governance systems where some functions are delegated to the local level but the central state remains in charge.

Governments at central and local level may go beyond decentralization and pass on functions to the private sector (e.g. utilities) or to non-governmental organizations (e.g. for hospitals) through deregulation and privatization of public service provision. In contrast to the three forms of decentralization mentioned above, the consequences for regional supply patterns are endogenous and not predetermined. The outcome may or may not result in reduced size of “decentralized” supply units (companies, cooperatives, civil society organization) providing the (former public) services and infrastructures. We do not address this (highly relevant) form of institutional change beyond public government decentralization in this paper.

² According to Smith (1996), a government has not decentralized unless the country contains “autonomous elected subnational governments capable of taking binding decisions in at least some policy areas.” This can either mean that such local governments have to be established or that their powers and responsibilities need to be increased.

Measuring Decentralization

Given its various dimensions, measuring decentralization in an aggregate way is not straight forward. One way of measuring it is to apply governance indicators to different layers of government. In recent years, there has been a proliferation of indicators describing different aspects of governance. Kaufmann et al. (1999) analyzed numerous of cross-country indicators as proxies for various aspects of governance including: voice and accountability; political stability; government effectiveness; regulatory burden; rule of law and control of corruption. In principle, each of these aspects can also be applied to decentralized structures. Such governance indicators are often problematic with respect to coherence and comparability of data. For example, it is obvious that the measurement of corruption — e.g. based on perceptions in the business community—causes difficulties; comparing scores between regions is generally problematic. In addition, indicators are always externally imposed and not related to the norms of a society. Despite these shortcomings, a number of indicators shall be used below as proxies for the different types of decentralization:

- political decentralization shall be captured by the degree of decentralization of elections (elections held at first, second, third tier government);
- administrative decentralization shall be approximated by the degree of sub-division of nation states, and by the size of countries in terms of population;
- fiscal decentralization shall be approximated by the share of sub-national expenditure in total expenditure.

All these types of decentralization have their deficiencies. Local elections as such do not guarantee local power, and for instance the extent to which a state is sub-divided may not say much about accountability and functions.

B. Driving Forces of Decentralization

In the last decade, a world-wide trend toward decentralization has been noted (Dethier, 2000). Administrative and fiscal decentralization in Latin America, and China, political decentralization in transforming economies, e.g. within Russia, and FSU, and deepened political decentralization giving more responsibilities to local government in India. It is tempting to speculate about a common driving force behind this trend. However, there may be several rather than just one force including the following internal and external pressures and demands for decentralization:

- *Regional political freedom, participation, and conflict resolution:* Decentralization occurred as a political reaction to the failures of over-centralized political systems. This type of decentralization was at least in the first place not driven by economic efficiency goals but by demand for regional independence and freedom from central government influence. Similarly, a large number of decentralization moves are driven by latent or open ethnic conflict, or its instrumentalization by local or central powers. Also, decentralization is seen as a way to reconnect central regimes to social groups from which they have become increasingly divorced (Manor, 1999).
- *Pressure of global competition:* Decentralization, curiously enough, is not just a parallel trend of globalization, but is very much driven by it. Increased competition between and within countries enforces efficient allocation of all resources, publicly and privately managed ones, at all levels including regional and local ones. This exogenous pressure is stimulating endogenous institutional and organizational change. Governments are forced to look at international policies when setting up their own policies. This holds true in trade, tax, stabilization, and even in social policies.

- *Demand for Stabilization*: While there is an increasingly felt need for many developing and transition economies to “open up“, this exposes economies to exogenous shocks and makes them potentially more vulnerable. A response from the regional and local level is to gain power over protective and stabilization related policy instruments. Thus decentralization for regional “shock absorption” may be a paradoxical result of opening up (e.g. Russia, Indonesia, China).
- *Demand for equity and efficiency in local public services*: Partly related to the forces of global competition, mentioned above, major changes in development strategies have been adopted by many countries. Noted inefficiencies in the management and delivery of local public services, often provided earlier through central government without a proper notion of local needs and demands, has raised the demand for decentralization to improve level, quality and efficiency in delivering public services.

These four forces - in which the first two probably dominate - often overlap and re-enforce each other. Each has implications for poverty reduction which are not just mediated through their effects on decentralization.

This paper does not aim to explore the global and local driving forces of decentralization. We pursue a more limited agenda in tracing decentralization—poverty linkages. In addressing the above mentioned set of research questions we largely treat decentralization as exogenous to poverty. This can be justified, because up to now the poor themselves are at best part of the driving forces through their demand for political decentralization.

C. Conceptual Linkages Between Decentralization and Poverty Reduction

The patterns and causes of poverty in a specific country setting (e.g. lack of resources; discrimination) along with governance conditions will largely determine the opportunities and risks of decentralization for the poor. At the outset some general patterns shall be mentioned. A conceptual framework, which places the linkages between decentralization and poverty reduction into a context with the driving forces of decentralization, is then discussed.

Chances of Decentralization for the Poor

In the economics literature on poverty, decentralization has long been ignored. Even research on public spending and targeting of the poor hardly touches decentralization (e.g. van de Walle and Nead, 1995). In the mid-nineties, there was a strong focus on public sector reform as well as capacity building and institutional strengthening to increase both, the focus on social priorities and the capacity of the state to reduce poverty (Lipton and van der Gaag, 1993). Recently, increased attention is being paid to promoting opportunities, to human resource, enhancing security and rights, and facilitating empowerment. All these are closely related to local public goods and services, and are directly linked to decentralization. Thus lately decentralization and poverty reduction have come jointly into focus through the search for “good governance” and related poverty implications (e.g. Dethier, 2000).

Participatory local governments are generally better informed about the needs and preferences of local population than central government, which has limited capacity to collect information. In a decentralized system, monitoring and control of local agents by local communities is easier, in principle. Elected local governments may generally be more accountable and responsive to poor people, and better at involving the poor in political processes. Decision making at the local level gives more responsibility, ownership, and thus

incentives, to local agents, and local information can often identify cheaper and more appropriate ways of providing public goods (Bardhan, 1997a).

Risks of Decentralization for the Poor

However, there are also dangers and disadvantages for the poor as a consequence of decentralization. Problems of expenditure control which are more complicated in a decentralized than in a centralized system, can arise, and may lead to “capture” of public resources by the elite and administrations at the local level. Decentralization can also lead to fragmentation of society or exclusion of the poor in the presence of a local elite, and to corruption.

Decentralization can also exacerbate political tensions between regions if they have significantly different income levels and natural resource endowments. Taking account of economies of scale in the provision of public goods and services, and the need for coordinated fiscal policy, a centralized government is presumably better able to internalize externalities.

While successful decentralization may improve the efficiency and responsiveness of the public sector to the needs of the poor, unsuccessful decentralization may threaten economic and political stability with negative outcomes for the delivery of public services of particular relevance for the poor. If decentralization were to raise economic welfare, but combined this with increased poverty, there could theoretically be a call for compensation of the poor. In view of the complexities involved, however, this would seem difficult and far fetched.

Conceptual Linkages

Besley (1997) categorizes approaches to poverty reduction into two alternatives: technocratic or institutional. The former emphasizes targeting and explores program designs that try to direct limited resources to people with greatest need. The latter approach notes, that the poor lack political power, and that administrative incompetence and corruption hinder service delivery of government. Poverty reduction therefore requires developing institutions, and changed political structures, improved governance, and changed attitudes towards the poor. Decentralization has implications for both of these two broad approaches. Decentralization may facilitate more effective technocratic program designs, as regional targeting may be facilitated, accountability of bureaucrats may be strengthened, and managing poverty reduction programs may be enhanced. Also decentralization can offer the legal framework and serve as a means for institutional approaches to poverty reduction, as it may enhance political power of the poor via increased participation.³

Taking these two broad categories of poverty reduction approaches as a base, we move from pros and cons of decentralization towards a conceptual framework. We essentially distinguish between two sets of linkages - in both of which adverse forces and risks may interfere, undermining potential benefits of decentralization for the poor - political empowerment linkages and efficiency linkages:

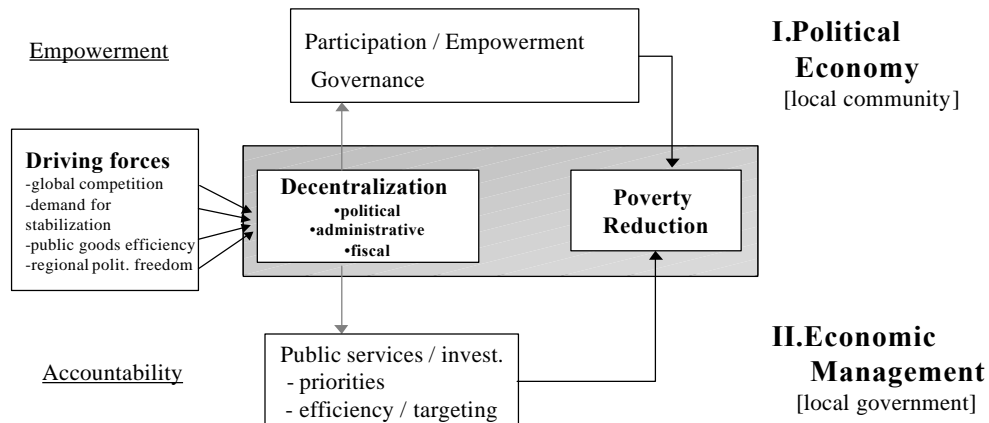
- Against a political economy background, decentralization may promote participation by the poor, facilitated by increased supervisory powers and enhancement of pro-poor choices of investment.

³ Scholars of the technocratic and of the institutional approaches, currently working separately, need to integrate their concepts in order to address decentralization policies for poverty reduction in specific contexts.

- From the economic management perspective, decentralization may help local government to improve the efficiency of public service delivery to the poor and targeting efficiency in transfer programs.

While equity and efficiency considerations are thus described as largely independent, they generally overlap. By engaging the poor in operating, monitoring and evaluation of delivery of public services at the local level, accountability of local government increases leading to more efficiency in the delivery of public goods. The two linkages are explored further below.

Figure 1: Conceptual Framework



Link I: Decentralization and Participation / Empowerment for Poverty Reduction

Decentralization is a way to enable civil society to participate in the policy process and thus, to increase transparency and predictability of decision making. Local governments are generally better informed about, and more responsive to, the needs and preferences of local populations than central governments. It is easier for them to identify and reach the poor as long as local politics permit this.⁴ Decentralization also has the principal advantage that local officials can be more easily monitored and controlled by the local communities than officials in the central government, if the rule of law exists on the local level.

Whether local participation in governance systems of public goods and services will really have a positive impact on low income groups is unclear. Participation, to be operational, requires first, a minimum of education, basic capabilities, and equality based on gender, religions or castes. And secondly, empowerment of people at local level. Often, these pre-conditions are not given. In addition, local elite has often direct access to and influence over local officials, and resist sharing power in new decentralization and participation policies (Narayan et al., 2000). If communities or the state cannot influence or control the actions and

⁴ Country and community contexts matter, however. Galasso and Ravallion (2000) argue, that the enthusiasm for community-based targeting has clearly run well ahead of the evidence.

power of local leadership, then this often leads to investments which benefit elite interests and an under-investment in public goods and services for the poor. There is also evidence that in many settings, such as heterogeneous communities and underdeveloped rural economies, the benefits of decentralized social programs are captured by local elite (Bardhan, 1999, Galasso and Ravallion, 2000). Then, pro-poor coalitions like cooperatives or farmers or the land-less may be important to improve the outcomes of decentralization from an equity perspective. But the political system is often such that those who are in power, or who control power, have few incentives to allow participatory institutions to develop. Mahal et al. (2000) tested the hypothesis that increased decentralization/democratization at local level positively influences enrolment rates and child mortality once the influence of socioeconomic circumstances, civil society organizations, the problem of capture of local bodies by elite groups are controlled for. They find that indicators of democratization and public participation, such as frequency of elections, presence of non-governmental organizations, parent-teacher associations and indicator variables for decentralized states generally have the expected positive effects.

Link II: Decentralization, Public Services and Pro-Poor Investment

From the perspective of information and transactions costs, externalities provide an argument for centralization if the central authority has unlimited ability to gather, process and disseminate information. But there are advantages to decentralization since central authority does not generally have that ability. Decentralization can be powerful in achieving development goals by assigning control rights to people who have the information and incentives to make decisions best suited to those needs (Bardhan and Mookherjee, 1998). For example, local information can often identify cheaper and more appropriate ways of providing public goods (Bardhan, 1997a).

Decentralization can also be seen as a way to increase accountability of local officials by bringing authority to the local level. Decision making at the local level gives more responsibility, ownership and thus incentives to local agents. There is some evidence that, by making local officials more accountable and placing responsibility for decision-making and implementation in the hands of local stakeholders, the quality and efficiency of public services improves (Bardhan, 1997a and b). However, there are also counter examples.

What local governments can achieve depends on the resources and responsibilities they are granted. The separation of financing responsibilities from expenditure administration can lead to inefficiencies. Fiscal transparency decreases when sub-national governments are strong and independent of the national government. Decentralization can also create a fragmentation of domestic markets (e.g. India, Russia). Tax and custom regulations can become impediments for exchanging goods between regions. Tanzi (2000) notes that certain conditions have to be met before fiscal decentralization can successfully take place. These include conditions related to tax administration, public expenditure management systems, or hard budget constraints, which derive from political and administrative decentralization.

In a politically and administratively decentralized system, each tier of government feels entitled to add its own regulations. The resulting fragmentation of the domestic market (tax competition) can lead to distortions in resource allocations. Excessive legislation may be a consequence, too, driven by the scope for local rents to be captured by bureaucrats and policy makers. This may also apply to public services meant to cater to the needs of the poor. Regulations in such areas as health, sanitation and environmental protection often result in significant expenses for enterprises and therefore, have often been breeding grounds for corrupt practices. Even when bureaucrats are accountable to the local government, benefits

can be “captured” by interest groups with implication for efficiency. Capture leads to several problems in the delivery of local public services, including cost effectiveness and black market problems. Corrupt bureaucrats will tend to overstate costs, divert the public good to resell it to the non-poor on the black market, or give priority to powerful socio-economic groups (Dethier, 2000). As Alderman (1999) states, the increasing complexity of decentralized programs may raise the potential of improved delivery, but it also increases the chances for misallocation of funds at different nodes of the system.

Many decentralized countries have a corruption problem (e.g. Nigeria, India and China are at the bottom of the Transparency International index). Corruption increases poverty and to the extent it is increased or reduced by decentralization it is relevant here. Gupta, Davoodi and Alonso-Terme (1998) show that corruption increases income inequality and poverty through channels such as lower growth, regressive taxes, less effective targeting of social programs, unequal access to education, policy biases favoring inequality in asset ownership, reduced social spending, and higher investment risks for the poor. It has also been found that corruption increases infant mortality and reduces life expectancy and literacy (Kaufmann et al, 1999b). Country analysis shows how regressive corruption is as a tax. For example, poor households in Ecuador must spend three times more on bribes as a share of their incomes for access to public services than richer households. Similarly, in various surveys of public officials in Latin America in the late 1990s, bureaucrats were found to discriminate against the poor by limiting access to basic services and by failing to pursue poverty alleviation (World Bank, 2000). Proximity between the government and the governed may reduce corruption due to improved accountability and transparency. However, there is also empirical evidence and economic theory indicating that decentralization may increase corruption and reduce accountability (see Rose-Ackerman, 1997). For some it seems that corruption is often more widespread at the local than the national level (Tanzi, 2000). It is often easier to enforce the rule of law among strangers than among neighbors or friends at the local level. It is also easier to buy votes or influence in a local setting. Still, a general conclusion on the relationships between decentralization and corruption cannot be drawn, and especially how it relates to services of the poor, calls for further research.

III. DECENTRALIZATION AND POVERTY

A. Political Decentralization and Poverty

Within the political context of decentralization, political power of the poor plays an important role in affecting the levels of living. On the one hand, the democratic form of government does not allow the state to bypass the poor. The major power of the poor is participation in the election process. On the other hand, decentralization has to do with political conflicts and macroeconomic stability. Both aspects will be considered in the following.

Theoretical reasons for a positive impact of political decentralization (with democratic elections) on poverty reduction can be derived from a simple political economy concept: In case poverty is a regional phenomenon and applying the median voter model, the needs of the poor are better served in a decentralized setting, at least when each constituency receives the same per capita amount in fiscal transfers. The median voter is per definition poorer in a decentralized poor district than in a centralized setting. Thus the allocation of public goods and services demanded by that median voter will be more tailored to the needs of the poor when the relative voting power of the poor is enhanced by decentralization; this hold also

under certain circumstances in multi-dimensional voting (Gandmont, 1978). The gains for the poor can be in current or investment expenditures, thus directly targeted to the poor as transfers or be allocated to income generating projects. Often, but not always, poor people tend to live in the same areas of a town, or country (e.g. China's poor are concentrated in the Western rural regions, Brazil's poor in the North-East). Poverty is often related to structural and ecological factors, and those are often un-equally distributed across regions. Pro-poor investment in these cases may for instance emphasize rural infrastructure and agricultural growth.

Cross-Country Comparisons

When decentralization prevents violent conflicts and war, or facilitates overcoming them, this will help the undernourished poor. Absolute poverty expressed in terms of hunger today is concentrated in countries affected by internal wars and violent conflicts (Wiesmann et al., 2000). In famine prone and ethnically diverse Ethiopia for example, decentralization has become a tool for deflating secessionist tendencies. However, the central government in Ethiopia still controls most of the revenues and has a strong re-distributive function. Since economic conditions differ considerably within the country, large inequalities are likely to be maintained. In Bosnia and Herzegovina, the state's authority is limited to a few responsibilities like international relations and infrastructure. It has few spending powers and no re-distributive functions (Fox and Wallich, 1997). Decentralization provides an institutional mechanism for bringing divided groups into a formal, rule-bound bargaining process (Treismann, 1998). South Africa and Uganda are two examples where decentralization has served as a path to national unity.

But decentralization is not a panacea for ending conflicts. It can also exacerbate political tensions between regions if they have significantly different income levels, or if they lay claim to the natural resources in their regional territory. Costs of providing public services may also vary because of regional characteristics, such as population density and geographic location. To correct for these inequalities, most decentralized fiscal systems include equalization grants (Ahmad, 1997). Evidence from India and Indonesia shows that even dramatic redistribution across regions will have limited results unless targeting is improved within regions themselves. In many countries, income inequality is based mainly on differences among individuals, rather than on differences among regions (Ravallion, 1999).

In decentralized countries where the local governments have significant power, macroeconomic stability can be threatened (Tanzi, 2000). For example in the Philippines, the central government is very limited in its ability to adjust to critical situations because nearly half of its tax revenues is allocated to local governments. In many Latin American countries, collection of revenues was decentralized before expenditure responsibilities in the 1990s. Thus, central governments were forced to maintain spending levels with a smaller resource base.

Political decentralization should, as hypothesized above, give more voice and influence to the poor close to their social environment. We would thus expect less poverty in countries with voting at a provincial level (second tier) and a district level (third tier) than in countries voting only for central governments, or not having democratic elections at all. The following tabulations show some interesting patterns in that respect. There is a strong relationship between decentralization expressed in the number of election tiers, and the Human Development Index of UNDP (HDI), which aggregates per capita income, literacy and infant mortality. It can be seen that poor countries (with a low HDI) tend to be politically

centralized, i.e. they have no elections or elections only at the central level (table 1a). This is also evident for the countries with poor economic performance measured in GNP (table 1b). The countries which were classified as “non-poor” in terms of HDI or GNP tend to have a higher degree of political decentralization with elections at the 2nd and 3rd tier.

Table 1a: Political Decentralization and HDI

HDI	Number of election tiers				Total
	No election	1	2	3	
Poor countries	19	25	7	0	51
Non-poor countries	11	28	26	9	74
Total	30	53	33	9	125

Source: Own calculations based on data from UNDP 1999 and WDR 1999/00.

Table 1b: Political Decentralization and GNP per capita

GNP per capita	Number of election tiers				Total
	No election	1	2	3	
Poor countries	25	42	13	2	82
Non-poor countries	2	9	19	7	37
Total	27	51	32	9	119

Source: Own calculations based on data from UNDP 1999 and WDR 1999/00.

Absolute poverty, as defined by income below one US\$ per day, is not affected much by political decentralization except for the case of 3rd tier elections, whereas the HDI continuously improves with political decentralization (table 2, first and second line). Very few countries have elections at the third tier which is closest to the poor, however some countries such as China have begun experimenting with this.

The effects of political decentralization for the poor—as found in the HDI—may be mediated through services improving human resources. Clearly the health quality index of WHO shows significant improvement when decentralization is deepened (table 2, line 3). It may be noted, however, that at the top of the list ranks a well known centralized state: France. The trend for illiteracy is less linear than for health service indicator:

Table 2: Political Decentralization Poverty, Human Development, Human Resources

	No election	Elections at ... level		
		Central	Province	District
%Pop. < 1\$/Day	20.9	29.3	29.9	7.1
HDI	.575	.644	.746	.884
WHO Index	.533	.610	.704	.845
Illiteracy %	33.8	24.5	22.5	1.4

Source: Own calculations based on UNDP 1999, WHO 2000, World Bank 2000

The broad cross-country comparisons have the obvious shortcomings that institutional characteristics, space and change over time could not be considered. We therefore turn now to some country specific reviews of ‘political decentralization – poverty linkages’.

Selected country evidence

A review of experiences with democratic local government in six developing and transforming economies concludes, that there is little evidence so far that democratic local government can do much directly to reduce poverty, at least in the short run (Blair 2000). But country and regional experiences are very heterogeneous. We look further into experiences of

China, India, Egypt and Ghana, which have been selected for this purpose because they are of global or regional relevance, display diversity in terms of size, of political regimes, degree and change in decentralization, levels and change of poverty, and economic structure. Poverty is a major concern in all four countries. Table 3 shows some basic decentralization, poverty and growth indicators for the four countries.

Table 3: Basic indicators of China, India, Egypt and Ghana

	Size of the country (sq. km)	No. of elected sub-national tiers	GDP per capita, PPP, current international prices			Life expectancy at birth (years)		Human Development Index (HDI)	WHO index (health sector performance)
			1978	1988	1997	1978	1998		
China	9,572,400	0*	320	1,310	3,130	65	70	.706	.485
India	3,287,300	2	430	1,020	1,670	53	63	.563	.617
Egypt	1,002,000	0**	800	2,160	3,050	54	67	.623	.752
Ghana	238,500	1	800	1,230	1,640	52	60	..	.522

*Some local level elections

**Local elections, but executive appointments can be over ruled by the center

Source: World Health Report 2000, WHO; World Development Indicators 1999, World Bank.

The reform process in **China** which started in 1979, was strongly supported and defended by local governments (Rana and Hamid, 1996). They were considered as an important source of reform ideas, and the central government referred to household farming or revenue-sharing systems successfully implemented at local level as national policy. Still today, the Chinese model appears to have a high degree of political centralization, mainly through the political organization of the Communist party. However, while political power is officially centralized, sub-national units have acquired substantial autonomy in designing and implementing policy, and in a few townships/villages, elections took place. China's central government can no longer re-capture the powers it has admitted and may not even want to. Since 1978, the number of posts controlled directly by the central organization of the party declined from 13,000 to 5,000 and central planning has largely been abandoned. Decentralization had a positive impact in terms of rapid growth in local economies in China (Jin et al., 1999; Qian, 1999). The number of rural poor (measured in terms of a dollar a day at PPP prices) fell from an estimated 280 million in 1990 to 200 million in 1995, and 125 million in 1997. China also stands out for its high levels of education and public health services dating from the time of central planning. However, while major improvements of the income situation of the poor mostly located in rural Central and Western China, took place early on in the reform process, significant poverty remains predominantly in rural settings. Economic inequality—between urban and rural areas and coastal and inland China—significantly increased in recent decades: China experienced the largest increase in Gini coefficient between the early 1980s and 1995. In part, this is due to factors related to governance such as distorted incentive structure, existence of powerful elite, or inoperative legal systems.

In **India**, a policy of liberalization began in 1991, and in 1994, India implemented a constitutional reform by determining the powers, authority, and responsibilities of the panchayats which are elected local-government bodies on three levels within a state. The Van Panchayat acts mandated elections for local authorities in its 250,000 villages and towns, with special provisions to protect the rights of the women, castes and tribes. Thus, the poor in India can exercise their voting rights directly at three levels, and can even participate in policy

making on reserved seats at panchayat level. However, pressure or interest groups try to influence both the government and the poor to shift the policies in their favor. There are still patron-client relationships in some villages and the poor have to vote according to the preferences of the landlords. Even the selection of scheduled caste and tribe candidates for panchayats is often done by the rich. In addition, there have been increasing instances of violence in elections against taking the right to vote from the poor (Quibria, 1994). Thus, India combines persistent high poverty rates, illiteracy, and poor social indicators with democracy. The last decades brought only slow improvement in the living standards and social indicators of the poor. By the late 1990s, an estimated 340 million people were living in poverty, up from an estimated 300 million in the late 1980s. Some 43 % of India's population is under the poverty line, as opposed to 12 % in China. India still suffers severe deprivations in education and health—especially in the North, where caste, class and gender inequities are particularly strong.

In **Ghana**, since 1983, institutional reforms towards decentralization at the district-level were promoted. Although the committees and councils have been part of the decentralization process since 1988, they were established only in 1999 through the elections to the Unit Committees of which about 16,000 exist in Ghana—in addition to 1,276 Urban/Town/Area and Zonal Councils (Thomi et al., 1999; Twum-Baah, 2000). A survey of the traditional authorities shows that most traditional chiefs considered the District Assembly concept positively (Yankson, 1999). The overall decentralization process in Ghana has been classified as successful, despite all deficiencies and problems involved. However, it is a process which is ongoing and needs to be kept on track to be sustainable (Thomi, 1999b). It has also established the framework for successfully implementing projects that depend on participation with a strong pro-poor focus, for example, in the field of water access (Mastovak, 1999). While the overall incidence of poverty in Ghana has decreased, little benefits of the overall growth process have been felt by the poor (Twum-Baah, 2000).

Egypt has 26 governorates which are divided into 166 Markaz. Since 1975, the Markaz are autonomous local units supervising affiliated villages. There are a total of 4358 villages, of which only 920 are local units with a local council, while 3438 are satellites to Markaz. The 3438 satellite villages are divided into sub sections with a police force or a mayor (Omda). Each of the levels has locally elected "local popular councils" and appointed "local executive councils", thus replicating the division of labor between parliament and executive from the national level. Elected local councils are supposed to monitor the performance of the local executive council, but the central executive in Cairo can override their rulings. Until 1988 there was a provision for one seat for a woman. Law 145/1988 cancelled that quota which resulted in a drop of women participation in local councils. In the early nineties, Egypt implemented a Comprehensive Economic Reform and Structural Adjustment Program (ERSAP) which advocated a shift from a centrally planned economy into a decentralized, market- and export-oriented economy. The second phase of that program aimed among others at the social sector to safeguard the interests of the socially vulnerable groups during the reform process (Al-Mashat and Grigorian, 1998).

B. Administrative Decentralization and Poverty

Administrative and institutional decentralization redistributes authority and responsibility for resources among different levels of government. In order to be effective it establishes accountability structures. Public accountability entails at least two different mechanisms which are affected by both, political and administrative decentralization: first, elected

officials' accountability to the citizenry, and second, bureaucrats' accountability to elected officials (Blair 2000). Through both mechanisms the poor can gain, but the problem of 'capture' by local elite still exists. "The power wielded by the local elite is often in inverse proportion to the degree to which they are held accountable for their actions and decision making" (Narayan, 2000). One approach to reduce the probability of elite-takeover of decentralized programs, is to strengthen poor peoples' own organizations within communities and through cross-community networks. But the more effective and sustained approach is the strengthening of rule of law and of democracy in general, which is not just a matter of local initiative.

Are Small Countries Doing Better on Poverty Reduction?

As Tanzi (2000) puts it, "if all countries were small, and the arguments for decentralization were valid, there would not be any need for fiscal decentralization and there would be a strong reason for breaking up countries to make them smaller." Following that speculation, a simplistic aggregate test for the poverty reduction effects of administrative decentralization, which at first glance appears naive, is to ask if small countries are doing better in poverty reduction than larger ones.

There is a large body of literature that sees small countries at a disadvantage due to economies of scale in industries and administrative capacities in the public sectors. However, the implications of countries' smallness may be different from a poor people perspective and arguments in favor of decentralization imply that small countries should have better, more coherent fiscal institutions, and show better performance in targeting the poor than large countries. If a territory is too large to be optimally administered by one government, it is seen as better to have several smaller governments. This has been observed in China's provinces which have very large jurisdictions. When we simply correlate population size of countries' with poverty levels as expressed by the UNDP's Human Development Index (HDI), this does not reveal any significant associations, even if done for countries of similar income ranges. However, controlling for rich countries (OECD and oil exporting countries) Easterly and Kraay (2000) find for a sample of 153 countries, that poverty and welfare indicators are significantly better in small countries (below one million people). Infant mortality is lower by 23 per 1000 and life expectancy is 4 years longer. Moreover school enrollment is 8 percent higher than in non-small countries. Apparently small states are doing better at poverty reduction and this casts doubt on the wide spread notion that small states and their citizen are more vulnerable than other countries.

Decentralization is of course a different concept to that of breaking up nation states into smaller independent nations. Administrative decentralization may demonstrate itself in the degree of subdivision of a nation, to the second or third tier (provinces, districts) or even further below. What are the associations between income level and this type of decentralization, and what is the performance of key public services, such as health and education and the poverty situation? Table 4 shows a diverse pattern for a set of developing countries. Again, simply sub-dividing a nation does not say much about local decision making powers, and even less about the role of the poor. In each case the role of institutional arrangements regarding political and fiscal decentralization at the level of administrative units would need to be considered, if for instance (dis-) economies of scale for certain public services where to be explored. Further research in these scale economy issues might be interesting.

Table 4: Examples of Countries' Administrative Decentralization, Poverty and Public Services

Country	Persons per lowest admin. Unit	Poverty < 1\$/day	HDI	WHO – Index	Illiteracy
Bangladesh	26 685.0	29.1	0.461	0.675	61.1
India	4 049.3	44.2	0.563	0.599	46.5
Ethiopia	108 636.0	31.3	0.309	0.276	64.6
South Africa	47 769.0	11.5	0.697	0.319	16.0
Mexico	39 116.0	17.9	0.784	0.755	10.0
Turkey	30 735.0	2.4	0.732	0.734	16.8

Selected country experience with administrative (de-)centralization and poverty reduction

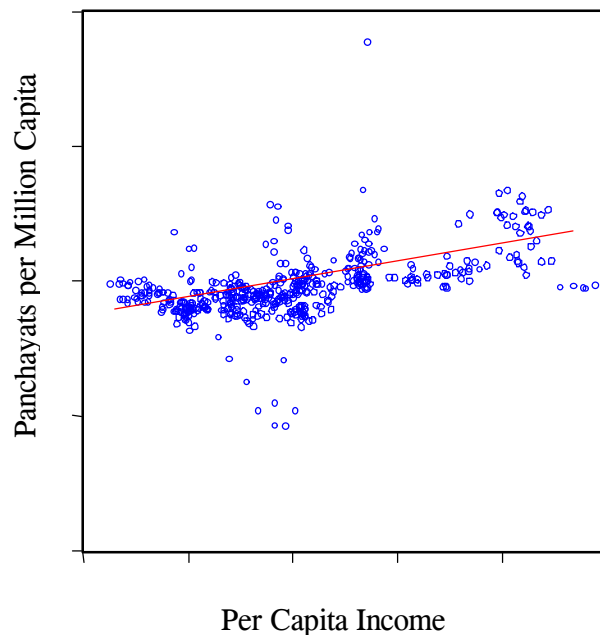
The direct effects of administrative decentralization for the poor much depends upon harmonious or conflicting goals at central and province level and beyond that at local levels, on accountability and enforcement. National anti-poverty programs, for instance, often rely on provincial governments to transfer resources to the poor, but outcomes then will depend on the behavior and capacities of provincial governments, and provinces can differ in relevant ways in their targeting performance (Ravallion, 2000).

China's approach to administrative decentralization relies on negotiations rather than rules to define relations between the central government and the four sub-national tiers—provinces, prefectures/cities, counties and villages/townships (Shi, 2000). Thus, the allocation of responsibilities across tiers of government remains unclear, except for health and education which are controlled by the provinces. Over time, this may threaten the success of the reform process. While administrative discretion has helped preserve the momentum for growth and reform, it has also created opportunities for corruption.

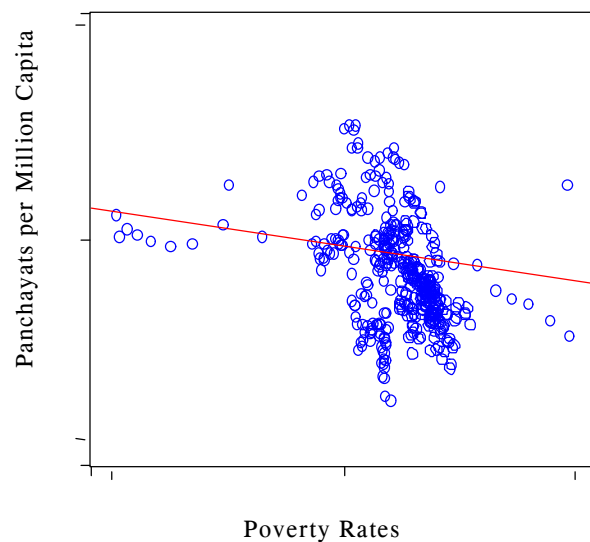
The scope of the panchayats in **India** is the preparation and implementation of plans for economic development and social justice. The list of responsibilities reaches from the provision of health care and education to agriculture and housing projects and cultural activities. The small jurisdiction of the panchayats allows the communities to adjust to local social and cultural particularities. The short administrative process facilitates quick and focused responses to immediate needs in case of disasters and stable long term planning. The panch, an informal committee of the village head and four village leaders, is widely respected for its ability to resolve disputes between villagers fairly. This means that conflicts can be resolved at the local level without resorting to the police or courts (Ahluwalia and Little, 1998). The downside of the decentralized administration is fiscal deficiency, lack of information and management capacity within the panchayats, missing supportive administration, politicized elections, and sometimes limited powers of the panchayats in specific states. Party politics have influenced the composition of the panchayats significantly. Often the representatives of the panchayats belong to the ruling party in the States, and party policy dominates decision making instead of local needs. In rural areas in particular, local affairs are often still run along authoritarian lines. The elite, particularly those from higher castes, are mostly seen as those who divert government resources for their own use. In some areas, local leaders are seen as selfish and corrupt and are cited as one of the reasons for lack of development in the area. In addition, the panchayats are not endowed with the human resources to provide expertise in all fields, and financial endowment is far too low to employ outside experts on the respective topics.

Koehling (2000) measures the impact of decentralization to panchayats on poverty in two steps. First, two indicators for decentralization on the lowest level of administration and government, namely the number of panchayats per million of population, and poverty indicators have been correlated. Second, a partial cross- section and time-series analysis has been conducted. The partial correlation (controlling for a set of other factors)⁵ indicates a clear positive correlation of the decentralization to panchayats on per capita income and on poverty reduction (figures 2 and 3).

Figure 2: Partial Correlation of Panchayats per Million Capita and Per Capita Income



⁵ Controlling for state per capita income, and related factors, i.e. agricultural conditions, infrastructure, literacy, demographics.

Figure 3: Partial Correlation of Panchayats per Million Capita and Poverty Rates

This preliminary analysis suggests, that in the context of India, political and administrative decentralization had a positive effect on the economic situation of the poor. The situation could be further improved if the organizations in charge would be financially strengthened and independent of the discretion of the State government. It should be underlined, however, that there is large inter-regional variance as pictured by the above figures. More comprehensive studies on West Bengal suggest that it is not just decentralization, but combinations of institutional reforms at a regional and local level that can be quite effective. Land reform's policies and the administrative decentralization to village councils have provided some of the most favorable conditions for overcoming traditional patterns of deprivation along the lines of class, caste and gender (Dreze and Sen, 1997)

The effects of decentralized decision making relevant for the poor do not stop at the lowest administrative level, but reaches all the way to village and inside-village levels. For Bangladesh's community based Food-for-Education Program, a program that does attempt to reach the poor in poor villages, Galasso and Ravallion (2000) find that the targeting performance of the program was due to pro-poor targeting within villages. The center's targeting of villages contributed less to overall targeting performance than intra-village targeting.

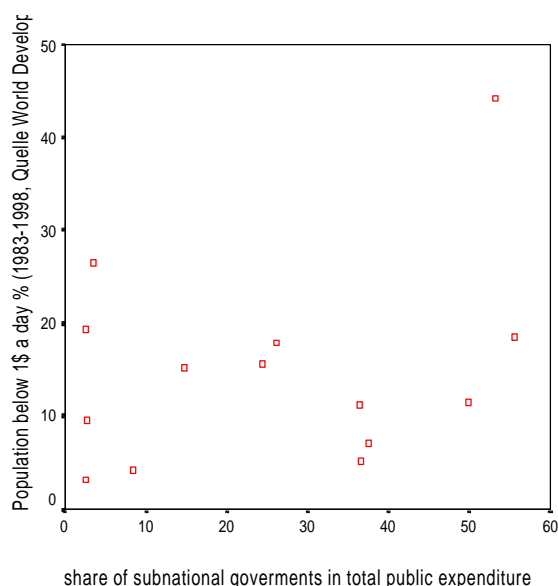
In **Ghana**, the administrative reforms towards decentralization at the district-level since 1983 promoted power sharing, and capacity building at the district level to reduce the reliance of local government on central government (ISSER, 2000). In 1993, the 'Decentralization Law' or Local Government Act was introduced as the new legal framework for decentralizing development in Ghana. This new local government system is made up of a Regional Coordinating Council and a four-tier Metropolitan and three-tier Municipal/District Assemblies structure. The geographical coverage of districts was restructured (from 65 to 110 districts). This did not necessarily lead to ethnic homogeneity within the districts as was intended, but rather sharpened ethnic conflicts; local level political institutions (district assemblies and sub-district structures) were established; and administrative, development planning and implementation, and budgeting decision-making were decentralized (Thomi et al., 1999; Twum-Baah, 2000). Providing infrastructure in several areas like establishment or

rehabilitation of school buildings and health centers belongs to the major achievements of the District Assemblies (Yankson, 1999). Administrative decentralization in Ghana is expected to result in the shifting of power and resources to local government, namely the District Assemblies. A household survey conducted in 8 out of the 110 districts indicates how people perceive the Districts Assembly's performance. According to the results, the Assemblies were generally accepted and appreciated. They were judged as being successful in improving education (18 % of all votes), markets (13 %) and sanitation (12 %), and also health, but to a lesser extent (5 %). The improvement of infrastructure totals some 81 % of all surveyed. 12 % of the people stated that there were 'no achievements' with respect to the District's performance (Thomi, 1999a). While the role of the Assembly members is generally accepted, there is some reservation on the effectiveness and responsiveness of the elected Assembly members (Thomi, 1999a). Within the administrative context of decentralization in Ghana, it is expected to increase allocative efficiency under conditions of different local preferences for public goods and improve the system's responsiveness to local needs. The results of a household survey about the question as to what extent decentralization has improved equity in terms of service delivery was answered more negatively. However, this could be interpreted as reflections of overall needs and limited funds available to the District (Thomi, 1999b).

In **Egypt**, the prerogative for changing the structure and responsibilities of governorates lies with the President. At town and district level, it lies with the Prime Minister. The governor can only change the structure and responsibilities at village level. As the system of local government came under attack due to increasing problems of uneven development in Egypt, more power was given to governors. But the overall coordination of all local government affairs belongs to the Prime Minister. Thus, local units remain a tool for the implementation of centrally made public policies. Even heads of the smallest villages have been appointed since 1994. Local administrative units theoretically have their own local sources of information and their local information collection systems. Based on this information, they devise projects and ask for funding. Constitutionally, local government is part and parcel of the executive branch of government. However, most employees at the local levels lack legal and administrative knowledge, and existing training programs are out-dated or irrelevant.

C. Fiscal Decentralization and Poverty Reduction

In order to shed further light on the linkages between decentralization and poverty reduction, we pursue the second link outlined in figure 1, that is whether public services for the poor are fostered by decentralization, and by fiscal decentralization in particular. Figure 4, which depicts a set of developing and transforming economies shows a tremendous range around a slightly downward trend of poverty by levels of share of sub-national in total expenditures. India and China both portray extreme cases in terms of share of sub-national expenditures (the two big countries happen to be represented by the dots which are furthest to the right in figure 4). Apparently size plays a role here. India, however, is also an outlier in terms of prevalence of poverty, especially for the high level of sub-national expenditures.

Figure 4: Poverty Prevalence and Levels of Sub-National Expenditures

With an increased level of sub-national expenditures, one might expect more pro-poor spending for public services, such as health and education, if (and only if) above discussed political empowerment for the poor comes into play. Table 5 presents groups of expenditure shares and health and education systems performance in terms of the WHO-Index and illiteracy. Whereas health systems performance generally improves with increased sub-national spending education does not. Poor regions may have poor education, even if spending shares rise.

Table 5: Sub-national Spending and Health and Education Systems Performance

Terciles of Sub-national Expenditure	Health System Performance	Education system (Proxy: illiteracy rate)
Lowest	0.726	12,67
2nd	0.621	13,74
3rd	0.487	20,13

Source: Own calculations based on data from WHO 2000 and WDR 1999/00.

Public financing of services is a core element of poverty reduction policy and practice. But low-income countries have the problem of low public revenues: in 1997 government revenues in these countries averaged about 17.5 % of GDP (excl. China and India). In high-income countries, revenues amounted to almost 30 % (WDR, 2000/01). There are also design and implementation problems as tax collection is often poorly organized and taxation still lacks transparency, especially in rural areas. The costs of raising revenues in poor countries is very high, sometimes even outweighing the benefits of public spending. Often, however, the real problem is that the limited public resources are not spent on activities—such as education or

health—that help poor people accumulate their assets. Many low-income countries are simply spending too much on areas like debt service, subsidies to the nonpoor, loss-making or inefficient public enterprises and the military. For example, Niger spends more than twice as much on servicing debt as it does on providing primary health care. In several countries, lower military spending permitted greater spending on health and education. Many countries—especially those in conflicts—have some of the worst health and education indicators in the world but spend more than twice as much on the military as on education and health combined.

Issues of fiscal (de-)centralization for the poor shall be further analyzed in the specific country contexts of China, India, Egypt and Ghana:

When **China** was established in 1949, the central government had strict control over local governments. In 1994, the central government implemented a new tax reform which created separate tax administrations for national and local taxes. Since taxes belong to the central government unless specifically assigned to localities, the loyalty of the local governments shifted away from the national government to the sub-national level. Provincial tax officers often used the tax administration system to establish some tax autonomy. They entered into direct negotiations with enterprises for payments and transferred tax funds that would otherwise have been shared with the central government into local extra budgetary accounts. The 1994 tax reform appears to have failed to stop the trend toward worsening regional inequality (Pengcheng, 2000). As the fiscal system was directed to self-financing in the 1990s, the fiscal pressure increased especially at the county level. As higher governments were under fiscal strain themselves and not in a position to subsidize existing services, local rural governments started to impose a host of fees and levies. The distributional effects of these local taxes and fees is diverse, but clearly, poorer regions were less able to raise taxes and disparities between regions increased (West and Wong, 1995).

China practiced considerable decentralization in the provision of social services. Prior to the reforms of the 1970s, state enterprises and communes played an important role in primary health care and basic education. Now, the major responsibility for education and health services rests upon the provinces and counties (Ghai, 2000). But the economic reforms in China in the late 1970s have had some unintended and sometimes detrimental effects in the health sector. The fiscal decentralization in 1981 weakened both the financing and the coordination of public health activities. It gave much more budgetary autonomy to local governments, and provincial health bureaus now develop their own programs according to national guidelines. County hospitals, epidemic prevention stations, maternal and child health centers and township health centers continue to receive some public subsidies for salaries but they are now required to generate substantial revenue from user fee. The government has encouraged programs and facilities to rely on user fees to support their programs (World Bank, 1997). Thus, government spending on health has not been effective in reaching the poor. China's public finance reforms in 1981 devolved almost all public finance of health services to the provincial and county level, limiting the central government's ability to redistribute funds from richer to poorer areas of the country. With fiscal decentralization, the poorest counties have become least able to finance public health programs. The Epidemic Prevention Service is now charging for immunizations and tuberculosis treatment in many parts of the country leading to reduced coverage and in tuberculosis treatment to medically inappropriate but profitable patterns of care (World Bank, 1997). An analysis of public expenditure over 11 years shows that the allocation of public expenditure is skewed toward richer regions, and within regions, to the provinces growing fastest in China (Hammer, 1996). Within provinces, government spending is concentrated on government health insurance and

hospital care. Services that disproportionately serve the poor, such as the Maternal and Child Health Program and the Epidemic Prevention Service, have been constrained and increasingly forced to rely on revenue from user fees. Traditional public health activities achieve greatest coverage in the wealthiest provinces (World Bank, 1997).

In **India**, the fiscal functions of the Panchayats have remained virtually unchanged. Although it is suggested in the Constitution to grant the panchayats the right to levy taxes and duties, it is a matter of State legislation to determine that. Most States grant a lump sum payment for the ordinary work of the panchayats, and the State government approves the disbursement of funds for specific projects on a case-by-case basis. Even if the States would grant the communities the right of taxation, the tax base would be far too small to cover the assigned responsibilities. An equitable fiscal transfer system is missing on the municipal level within the States.

Still, in India, there are several examples, especially in primary education, where decentralized structures have clearly improved matters. For example, in Madhya Pradesh where an education guarantee scheme is in effect, the government provides the funds, but schools are run at the local level by locally appointed teachers and are completely administered by village education committees (Dethier, 2000; Ghai, 2000). Over time, the education system has actually become more and more centralized in India. Many crucial decisions (curriculum, etc) are made by the state and not local governments. The panchayats cannot appoint auxiliary teachers, adjust school hours to local agricultural cycle or authorize repairs. A recent survey of primary education found that 73 % of primary schools in North India have leaking roofs so that classes are interrupted for weeks at a time during the monsoon (Probe, 1999). One of the reasons for this situation is political resistance to decentralization, notably on the part of teacher organizations and the education bureaucracy. Teachers are employees of the state and are strongly unionized. In North India for example, many schools used to be accountable to local bodies, but teacher organizations have pressed for transferring school management to the state government as they wanted all teachers to enjoy the same terms of employment and to be sheltered from local accountability. (Dethier, 2000). Similarly, when privileged groups exist within the local society and set up private schools, this diminishes public pressure for efficient public services, as it happened in Uttar Pradesh. By contrast, in Himachal Pradesh, the public schools function relatively well, reflecting a relatively egalitarian social structure (Probe, 1999). In Kerala, the voluntary sector, either on its own or with the support of the state, has played an important role in education. Schools run by religious organizations and charities have been important historically, but increasingly they are supported and regulated by the government (Ghai, 2000).

With respect to the health sector in India, poor people in many regions report widespread corruption in health care systems. It was noted by the poor that health agencies are seldom used due to distance, lack of medicines and lack of sympathetic attitude of staff (Narayan, 2000). People use private pharmacies and traditional doctors instead. Fan et al. (1998) analyzed the impact of different types of government spending on rural poverty and productivity growth in India. The results suggest that government spending on productivity enhancing investments like agricultural R&D and irrigation, rural infrastructure, rural development and welfare targeted directly on the rural poor have all contributed to poverty alleviation, but with large differences in their effects. Government expenditure on roads has the largest impact on both poverty reduction and growth in terms of poverty. While government spending on welfare (employment and community development programs) for

scheduled castes and tribes and also for health has large impacts on poverty, it has little impact on growth.

In **Ghana**, the common fund of the District Assemblies enabled the districts to provide basic infrastructure in the field of education, health, water, transport etc. to areas which have been neglected before (Thomi, 1999b, ISSER, 2000). NGOs also contribute significantly to the funding of education development at the district level. As a result, decentralization increased the access of people living in remote areas to public services. In addition, the improved markets and transport facilities positively impacted on the economic situation within the districts, and created demand for especially construction services. However, with more than limited budgets, assemblies are forced to “invent” new taxes and to levy special development rates thus bringing themselves into disrepute. In addition, there is evidence that in many low-income countries, health resources go disproportionately to hospital and curative care used more by better-off groups (Patrinos and Ariasingam, 1997). In Ghana for example, the richest quintile receives nearly three times the public health spending received by the poorest quintile (Filmer and Pritchett, 1999b).

The health care system has been decentralized for some time through the establishment of district-based health teams (DHT) in Ghana. They play an important role in ensuring the availability of cost-effective services, and can be authorized to make decisions on the location of new public and private health care facilities, determine which health services are to be provided by the center and the district hospital, set standards for health care facilities etc. To increase the capacity of DHTs, the government initiated a training program in 1988 which has been assessed positively (World Bank, 1994). In Ghana, costs of medical consultations are perceived as high but the quality of hospitals are perceived as more competent in general. Subsidies in health services tend to benefit wealthier groups. In Ghana's Volta Region in 1995, less than 1 % of patients were exempt from health user fees, and 71 % of exemptions went to health service staff (Nyongator and Kutzin, 1999).

In **Egypt**, locally raised taxes go into the central tax pool before being reallocated to governorates. Local-levied taxes can be increased by the governorates, but they require the approval of the cabinet of ministers and the finance minister. The biggest portion of local funding comes in the form of a donation from the central government (64% in 1969, 81.5% in 1979). This is a 100 million Egyptian Pounds annual sum known as Joint Revenues Account of Governorates. Half of this amount goes into the budgets of governorates where import-export and industrial and commercial taxes were collected. The other half goes to the Ministry of Local Administration to be allocated to deprived governorates upon the approval of the Ministry of Planning. Central allocations cover mainly administrative expenditures. Local councils have the right to amend, change, and suggest new directions of the budgeting, but in reality, they do not have the competence. Further resources for the local units come from local taxes, service charges imposed locally as well as national taxes such as from the Suez canal, international donations upon approval of Prime Minister, and from the Special Services Development Funds, like the social services development fund. These funds are financed from service charges and fees approved by the local council; governmental and non-governmental donations and grants approved by the local council; rental income of housing units financed through the fund and profit from fund's income generating projects. The special funds are autonomous from the national level. The board of the fund headed by the local unit chief decides on policy and is subject to control of local elected councils. Special funds have the advantage that they are public funds that have more flexibility as far as allocation is concerned. Local units have difficulty raising donations; so do NGOs. Donations have to

enter the national treasury accounts. Thus local communities often do not ask for cash donations, but for donation in kind.

Some general observation emerge with respect to the decentralization of basic social services. Any fiscal decentralization supposed to serve the poor has to be part of a larger, more general framework, that is, a framework that helps to generate appropriate incentives for accountable decentralized decision making (Ahmad 1997). Ahmad (1997, p 380) further points out, that central governments concerns for uniform absolute standards, such as for nutrition and basic education would have to be met through special – purpose transfers, which would be easily identified and monitored.

Fiscal decentralization does not lead automatically to more pro-poor spending. Political and administrative decentralization seem a precondition. Even higher public expenditure on social services may not translate into more or better services for poor. Programs for poor people are too often of low quality and unresponsive to their needs. Filmer and Pritchett (1999a,b) found that public spending is only weakly related to outcomes. They correlated between public expenditure in education per student and the percentage of people aged 15 through 19 who had completed grade five. The correlation appeared positive and significant at first, but after controlling for per capita income, the correlation was found to be fairly weak. In Latin American countries for example, although public education spending rose in the nineties, average primary dropout rates increased (Thomas et al., 2000). Allocation within the sectors is most relevant. To support asset accumulation by poor people, distribution within sectors must favor basic services used more by the poor and those with the greatest market failures. Even when health services are publicly financed, poor people face constraints (for example through complementary costs such as transportation to medical care) that limit their access to them. A community-managed school program named EDUCO in El Salvador shows that enhanced involvement of communities and parents has reduced student and teacher absences with long-term effects on achievement (Jimenez and Sawada, 1999). In the Philippines and in Pakistan, it has been found that community-managed schools achieved better results (Jimenez and Paqueo, 1996). The high failure rate of government projects, obvious mismanagement of government funds, and unfair practices in election of village heads mean that incentives for accountability are low. The pre-conditions for effective and pro-poor fiscal decentralization, i.e. political and administrative decentralization were not fulfilled.

D. An Exploratory Multi-Variant Analyses on Decentralization and Poverty

We expand on the above analyses and country comparisons with some analyses to assess the combined effects of political, administrative and fiscal decentralization. Our main interest is in what ways political, administrative and fiscal decentralization affects poverty. We employ a multi-variant regression analysis for the purpose. Conceptually we would like to control for human, and physical capital stocks of countries, their natural resource endowments, and institutional characteristics:

Poverty= f [Cphys, Chum, Cnat, INST, DECpol, DECadm, DECfisc]

Preferably this would not be analyzed in cross-section but in long term time-series, capturing effects before and after increased or decreased decentralization. Current data availability does not permit such comprehensive analyses. We therefore work with some approximations in this preliminary analysis:

- The dependent variable is the Human Development Index (HDI), which is based on fixed effects-outcomes of physical and human capital (income, education, mortality)⁶.
- Political decentralization is approximated by prevalence and extent of elections at (sub-)national levels,
- administrative decentralization shall be portrayed by size of country (the degree of administrative partitioning was not available for many countries) in terms of population, and
- fiscal decentralization shall be approximated by relative sub-national spending power (sub-national public expenditure over total public expenditure). We expect that at the margin fiscal decentralization effects for the poor may decline and therefore we include a squared term. For this fiscal decentralization variable we have only 50 observations (results see table 6a), and we repeat the analysis for a larger sample (173 countries) without that variable (Table 6b).

Table 6a: Regression Analysis on Decentralization and Poverty

Variables	Coefficients	t-values	Signific.
ELECT0	0.0561	1.26	0.214
ELECT2	0.1050	3.45	0.001
ELECT3	0.141	3.69	0.001
POPSIZE(log)	-.0321	-3.43	0.001
DECfisc	8.990 E-3	2.96	0.005
DECfiscSQ	-1.275E-4	-2.39	0.021
Constant	1.151	7.64	0.000

N: 50; R-square:0.495 F: 7.19

Table 6b: Regression Analysis on Decentralization and Poverty

Variables	Coefficients	t-values	Signific.
ELECT0	-0.0622	-1.69	0.091
ELECT2	0.114	3.12	0.002
ELECT3	0.262	4.39	0.000
POPSIZE(log)	-0.0198	-2.55	0.012
Constant	.968	8.41	0.000

N: 173 R-square: 0.19 F: 9.88

With the following variables:

ELECT0	No election held even at central level (=1, else =0)
ELECT2	Elections held at 2 nd tier government (=1, else =0)
ELECT3	Elections held at 3 rd tier government (=1, else =0)
POPSIZE(log)	Population of country (log)
DECfisc	Share of sub-national expenditure in total gov exp.
DECfiscSQ	(DECfisc) square

The two reported regressions in table 6a and b suggest at least, that it may be useful to invest further in data that would facilitate such analyses. Of course a number of usual econometric

⁶ Including a proxy for natural capital endowment (crop land per person) did not show significant parameter estimates.

questions need be raised about directions of causalities and the relationships of the right-hand-side variables. The results seem to imply, however, that:

- Small countries do better than larger ones in poverty reduction (in line with Easterly and Kraay, 2000)
- A larger share of sub-national expenditures tends to reduce poverty but with declining effect at the margin;
- Elections if held only at the central level do not make a difference for the poor as compared to no elections, if size of country is controlled for, but
- Political decentralization matters for human development: Elections at 2nd tier, and even more so at 3rd tier are strongly associated with an increased human development indicator.

This multi-variant analysis may stimulate for looking into more specific functional relationships by groups of countries and over time. It can not serve as a substitute for the analysis of decentralization at a country level, which for the cases of China, India, Ghana, and Egypt provided ample examples for outcomes quite different to these general patterns.

IV. CONCLUSION

A. Findings and Extrapolations

We asked at the outset: Does decentralization serve the poor? The general answer to this very question seems “Yes” but it certainly depends. An important result is that it is not sufficient, just to look at any decentralization type, such as fiscal decentralization, in isolation, when decentralization effects for the poor shall be assessed. Political, administrative and fiscal decentralization need to be considered simultaneously, and the sequencing and pace of the different types of decentralization seem to play an important role.

To come closer to meaningful answers to the general question, a typology would have to distinguish between

- types of decentralization (political, administrative, fiscal) and while these must be conceptually distinguished, they must be simultaneously considered because they strongly interact in their impacts on the poor.
- types of country conditions such as size, geography, population density, endowment with natural resources, cultural and political set-up, inter-regional solidarity, institutional and managerial capacities,
- causes and patterns of poverty, such as resource constraints and/or discrimination. Different types of decentralization impact differently on different causes of poverty and consequently on different segments of the poor. The rural poor will not benefit if rural decentralization de-links hinterland from urban and peri-urban growth centers. Children in poverty will not benefit if decentralization undercuts the capacity of large scale child nutrition programs,

Political decentralization often benefits the poor, because involving civil society in planning, monitoring and evaluating public programs and policies is crucial to ensure steady progress and that is facilitated in a decentralized system.

Administrative decentralization alone does not add power and voice to the poor. We thus did not expect much of a link to poverty from merely breaking up larger or central units into smaller ones because there are diseconomies of scale of governmental regional units from a perspective of the poor. Still, some indications suggest that smaller units, for instance smaller

countries, do better in terms of poverty reduction. There is need to improve public management systems to make public programs more efficient and accountable.

Fiscal decentralization shows even more ambivalent effects for poverty reduction. Minimum levels of sub-national expenditures seem to be a precondition for poverty reduction, but the effect of higher sub-national expenditures relative to total expenditures decreases at the margin in multi-country analyses. However, many country specific examples show that high sub-national spending shares do not show significant associations with poverty reduction. The public services particularly relevant for the poor – health services, basic education – benefit or loose in terms of efficiency and quality from decentralization, depending on institutional and managerial capacities at a local level, and local political power of the poor.

Compared with China, India and Ghana, Egypt which is a very centralized state and has large subsidy schemes, shows superior results with respect to performance of social indicators. However, this relatively positive development might be due to very specific conditions, and maybe the results would have been even better if decentralization would have taken place. With respect to Ghana, the overall decentralization process has been judged as successful despite of problems and deficiencies involved. In the two large countries China and India, regional inequality appears to have increased due to decentralization. However, India's political decentralization to panchayats, *ceteris paribus*, seems to have helped poverty reduction. In China, fiscal decentralization seems to have impacted negatively on the delivery of health services to the poor. Thus, it is necessary to differentiate between types of decentralization, country-specific conditions, target groups and even types of public services.

Even within a certain sector of public services relevant for the poor, there are types of services which are more appropriate to decentralize than others. In the health sector, there are some programs like for immunization which are calling for action at the central level. In the education sector, the development of curricula and quality control may be better to be allocated to the central level to avoid that regional inequalities occur.

We further asked the following more detailed questions at the outset, and provide some preliminary answers:

1. What are the conditions for positive or negative relationships between decentralization and poverty reduction?

And the answer is: political and administrative decentralization should precede fiscal decentralization. Otherwise participation and accountability are not assured.

2. Does decentralization promote participation by the poor, which may be facilitated by increased supervision power and improved governance?

And the analyses seem to suggest that political decentralization has indeed substantial and positive effects for the poor.

3. At different scales of decentralization, what are typical patterns of quality and efficiency of public services—health and education—in different countries?

And the answers to this one is, it very much depends on institutional conditions and management capacities, as described above.

B. Research Implications

There are important research implications which need to be addressed simultaneously from an economic, and political–economy perspective in order to identify poverty effects of decentralization. Some of these are the following:

1. Decentralization effects for the poor depend on a country's prevailing conditions, as discussed above. Under which conditions specifically is decentralization good or bad for the poor? Can typologies be further developed, as hinted at above?
2. Lack of clarity in decentralized governmental fiscal relations and in the definition of the functional domain of various government tiers remains a large problem as does weak administrative capacity at the local level. Research may assist in providing frameworks that include distributional and poverty considerations;
3. Political economy research needs to further address problems of "capture" of economic benefits by elites; ill-defined control rights; conditions to overcome political power structures at local level, which often lead to social and economic outcomes that are highly in-efficient and adverse for the poor.
4. Research needs to address dynamic issues in decentralization processes: Constraints of the poor to get access to public services seem to increase in the context of transition from centralized toward decentralized governance, thus there is a need to manage transition toward more optimal decentralization in a pro-poor fashion.
5. In the majority of sectors that are of particular relevance for poverty reduction, a good case for complementarities between decision making at the local and central levels can be made. In education, some parts of the system (setting the curriculum, organizing examinations at the secondary school level, monitoring the quality of instruction etc.) are best provided by central authorities with democratic control and oversight. Some tasks (such as fixing leaky roofs, teacher absenteeism) can be better taken over by the local authorities because they have more information and a greater stake in monitoring teachers. The identification of optimality of specific decentralizations requires sound analytical frameworks for ex-ante evaluations.
6. The most meaningful decentralization effects for the poor seem to occur at the community level (3rd tier of government). However, we know very little about decentralized raising of revenues and levels and allocation of expenditures at that level, below provinces. That hinders comprehensive assessments of fiscal decentralization effects for the poor in particular.

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