

INDEPENDENT EVALUATION GROUP (IEG) EVALUATION OF THE BANK'S ASSISTANCE FOR DECENTRALIZATION APPROACH PAPER

1. Between 1987 and December 2006 the Bank committed approximately \$32 billion to about 89 countries through 458 programs, projects, and grants in which decentralization was noted as one of the key themes or classified as an activity (Annex I).¹ Ninety percent of those projects were approved after FY93 and about 60 percent of the activities have since closed. The Independent Evaluation Group (IEG) proposes to evaluate Bank assistance for decentralization using the approach described in this paper. This evaluation is one of three ongoing evaluations of public sector issues, the other two being on Public Sector Reform (of the core public sector) and Legal and Judicial Reform.²

Box 1: What is Decentralization?

Decentralization is the transfer of authority and responsibility for governance and public service delivery between different levels of government.

The **dimensions** of decentralization are:

- **Administrative** decentralization—how policies and decisions are made and how these are turned into allocative outcomes.
- **Fiscal** decentralization—the assignment of expenditures, revenues, transfers, and sub-national borrowing to sub-national governments.
- **Political** decentralization—how the voice of citizens is integrated into policy decisions and how civil society can hold authorities and officials accountable.

The **modes** of decentralization are:

- **Deconcentration**—the lowest level of decentralization where responsibilities are transferred to an administrative unit of the central government, usually a field office or regional office.
- **Delegation**—where some authority and responsibilities are both transferred, but there is a principal-agent relationship between the central and sub-national government with the agent remaining accountable to the principal.
- **Devolution**—the most extensive form of decentralization where a government devolves responsibility, authority, and accountability to sub-national or local levels with some degree of political autonomy.

2. Decentralization may be defined as the transfer of authority and responsibility for governance and public service delivery among different levels of government (Box 1). The reasons for pursuing decentralization vary: some countries embark on political

¹ The first raw cut of “decentralization” projects is based on the Thematic Flag (up to five can be selected, in each case either primary or secondary) as drawn from an internal World Bank database as of December 31, 2006. These data show that the first project with a decentralization theme was in 1987. A preliminary review suggests that roughly half of this commitment may be attributed to decentralization activities.

² The approach paper for the Public Sector Reform evaluation has already been delivered to and approved by Committee of Development Effectiveness (CODE). The approach paper for Legal and Judicial Reform is being finalized now.

decentralization in order to provide “voice” to different political groups and others to enhance efficiency (matching preferences with public service delivery). The three dimensions of decentralization (Box 1) often occur in an uncoordinated manner: political decentralization may precede fiscal and administrative decentralization or, within fiscal decentralization, expenditure decentralization may precede revenue decentralization. The three modes (deconcentration, delegation, and devolution) can occur differently, with devolution in one sector and delegation in another. Decentralization is complex, with many country-specific attributes, and therefore is a country-specific process.

3. The 1997 World Development Report (WDR), *The State in a Changing World*, noted that decentralization is one of several processes that “offers the chance to match public services more closely with local demands and preferences and to build more responsive and accountable government from below.” The WDR found that decentralization brought benefits to China, India, and much of Latin America, improving the quality of government, increasing representation of local business and citizen interests, and spurring effective policies and programs. The WDR cautioned against three pitfalls of decentralization: rising inequality, macroeconomic instability, and risk of local capture. It recommended that the best structure for intergovernmental arrangements will be country-specific, and will require institutional and human capacity as well as clear rules for intergovernmental collaboration.

Bank Strategy for Decentralization Assistance

4. A review of Bank documents and country CASs indicates that the Bank does not have a single unified strategy for decentralization. Rather, the Bank appears to have two typical modes of operation. In countries that have decentralized in the past for a variety of reasons and now confront problems with it (Argentina, Brazil, China, Mexico, India, Tanzania)—fiscal imbalances, inadequate service delivery, excess inequality, etc.—the Bank works with the government to find effective solutions to addressing the constraints. In countries that are initiating or pursuing decentralization (Bangladesh, Guinea, Indonesia, Pakistan, Peru), often for political reasons, the Bank works to support them in designing decentralization more effectively and to avoid pitfalls. Sometimes the strategic entry point is at a sectoral level; other times it is across a broad range of public activities. In both types of countries, a review of the CASs indicates that the reasons for supporting or strengthening decentralization included achieving outcomes such as improved service delivery, better fiscal balance and, increasingly, empowerment of the poor through enhancing downward accountability of local governments and increasing citizen oversight and participation in development planning and implementation.³

³ These objectives are similar to those stated in the 2000 Public Sector Strategy. The Bank Health, Nutrition and Population Strategy (1997) “encourages” governments to address priorities through decentralization to raise efficiency in the use of scarce resources, while the Education (1999) and Urban and Local Government (2000) strategies include recommendations on how ongoing decentralization in these sectors should be strengthened.

Evaluation Objectives, Framework, and Methodology

5. **Objectives and Scope of the Evaluation.** This evaluation will assess the effectiveness of Bank assistance for decentralization between FY87⁴ and FY06 in supporting the achievement of the outcomes stated above (paragraph 4).⁵ Building on the vast range of existing literature on the subject, the evaluation will aim to help provide information to policy makers inside and outside the Bank on what worked well (or did not) in this area, under what conditions, and in which sectors. The evaluation will aim to garner lessons for Bank staff and client stakeholders, notably on the strengths and limitations of Bank advice and assistance for decentralization, the effectiveness of various entry points, and missed opportunities.

6. The country will be the unit of account for the evaluation, and the time period for each country will vary depending on the date of first Bank assistance for decentralization. The evaluation will cover the use of all instruments within a country context, such as economic and sector work, investment lending and policy-based lending, including sub-national lending, municipal financing and technical assistance, insofar as they involved a transfer of authority, responsibility, or resources to a lower level of government.⁶ The evaluation will cover subnational fiscal and public sector reforms and select sectoral issues, focusing on education, health, rural water supply, and urban development, sectors of importance for the Millennium Development Goals and, in which the Bank has supported decentralization. This evaluation will not cover subnational privatization of public enterprises and utilities except in so far as it was part of a subnational fiscal reform program that involved decentralization supported by the Bank/IDA.

7. **Evaluation Framework.** The evaluation will first identify what inputs the Bank provided in supporting countries as they embarked on the process of strengthening or pursuing decentralization, covering lending and nonlending assistance, including analytical and advisory work. The evaluation will assess whether such assistance supported desirable outputs (such as the development of a sound policy/legal framework for decentralization, encouraged shifting of authority and responsibility covering both expenditures and revenues, encouraged fiscal prudence at all levels, improved transparency and accountability at the local level), and whether this led to the desired outcome (improved delivery of services for the poor, and empowerment of both poor men and women). Capturing the overall development effectiveness of the Bank assistance is challenging because decentralization is only one of several variables that could lead to the desired outcome. At the country level, this will require that the evaluation (i) assess

⁴ The first project to include a component for decentralization, as reflected by a thematic flag in an internal World Bank database, was a water supply project for Rwanda in 1987. However, the starting date for evaluation will depend on the nature of Bank assistance to a particular country.

⁵ During a roundtable discussion held with operational managers and staff, other approaches to outcome-based evaluations were suggested; these, such as the theory-based approach to evaluation, were discussed and considered, but it was decided to use the approach selected because of the resources available and the nature of the data.

⁶ Community-driven development projects were evaluated previously and will not be revisited here. See *The Effectiveness of World Bank Support for Community-Based and –Driven Development, An OED Evaluation*, 2005.

how the Bank took into account other variables in planning its assistance, (ii) identify external factors that influenced the outcomes, and (iii) determine the extent to which the Bank could have foreseen and mitigated any potential risks. Attribution will be difficult, and the evaluation will attempt to assess whether Bank assistance for decentralization appears to have contributed (positively or negatively) to achievement of the three objectives stated in paragraph 4.

8. **Evaluation Questions.** Key evaluation questions incorporate the standard IEG criteria:

- To what extent was the Bank assistance for decentralization and its objectives relevant for client countries? (inputs)
- To what extent has the Bank effectively influenced decentralization processes in client countries? (process)
- To what extent has Bank assistance for decentralization been supportive of “good” decentralization (that is, that which is likely to lead to the positive outcomes referred to in paragraph 4)? In this context, what worked, what did not work, and why? (outputs and outcomes)

9. **Evaluation Methodology.** Several evaluations of decentralization have been attempted both inside and outside the Bank. For example, the Inter-American Development Bank (IDB) has undertaken independent evaluations of how decentralization processes, with focus on its assistance, affected the ability of citizens to address their priorities and needs across different government levels and sectors in six countries. An Organization for Economic Cooperation and Development study (2004) attempted to glean lessons from 13 member evaluations of donor assistance for decentralization. The Bank has also undertaken some self-assessments at the country level focused on specific sectors such as health and education. IEG has applied the following lessons from these and other evaluations⁷ in designing its approach: (i) the term “decentralization” must be carefully defined; (ii) the country (not the project) is the suitable unit of evaluation; and (iii) outcomes can take more than a decade to materialize in some cases and must be measured with care.

10. The evaluation will select sample countries based on criteria such as regional representation, scale of Bank assistance—and, based on a rough typology that will classify countries by the type of political organization (unitary or federal), the status of decentralization when the Bank initiated its support for decentralization as well as the type of Bank assistance provided. In consultation with Bank staff, the evaluation will then select the evaluation sample of 25 countries. While the evaluation will answer the first two evaluation questions based on an examination of Bank assistance in all 25 sample countries, it will restrict its assessment of results (the third evaluation question) to a subset of about half a dozen countries where participatory assessments will be conducted with the help of local experts.

⁷ IEG had initiated an evaluation on decentralization in FY02, which resulted in several background papers; these papers will be used by the proposed evaluation.

11. **Relevance of Bank Assistance.** At an institutional level, the evaluation will focus on whether the Bank developed a body of knowledge reflecting practice and a community of practitioners in aspects related to decentralization, whether such knowledge increased understanding of what worked and what did not, and whether this fostered an exchange of information leading to effective assistance. At the country level, it will assess whether the Bank undertook sound analysis that ensured consideration of country and political context and identified and addressed risks of decentralization; and provided advice that was consistent, relevant, and supported by empirical evidence. A literature review will help to compare the analytical underpinnings of Bank assistance. The review will identify recent findings and emerging consensus on the empirical mechanisms that link decentralization to poverty reduction as well as on the design and approach to decentralization reforms—political, fiscal, and administrative. To better understand the relevance of the Bank assistance, the evaluation will compare Bank’s approaches with those taken by other multilateral and bilateral donors. With this background, the evaluation will assess whether the Bank strategy as implied in its assistance was adequate to guide the design of Bank assistance.⁸ Although primarily a desk assessment, in assessing relevance the evaluation will also rely on independent and field-based sources of information, particularly in countries where field assessments are being proposed.

12. **Influence of Bank Assistance on Decentralization Process.** This component will take stock of Bank assistance in supporting the process of decentralization in 25 sample countries and, to the extent possible, at a regional level. First, the evaluation will take an inventory of the types of assistance the Bank provided in the sample countries in helping clients to enhance, initiate, or adjust decentralization (this could even involve some centralization). Then it will identify the key drivers of decentralization, the entry points for Bank assistance, and the role of the Bank in each country. Second, in each country, it will assess whether Bank assistance was predicated on sound analysis, results-oriented and based on a comprehensive client-led strategy for decentralization, and likely to lead to the expected outputs. Specifically, the evaluation will review whether Bank assistance for decentralization:

- Was built on a sound analytical work on the country context, institutions, and capacity, which takes appropriate lessons from experience elsewhere;
- Varied depending on the starting points and histories of different countries;
- Was in response to an overall and considered client strategy for decentralization and consistent with country goals;
- Was well-sequenced and well-coordinated toward the stated objectives within the Bank’s overall assistance to the country;
- Identified potential pitfalls and mitigated risks posed by weak institutions, low capacity, and capture of resources by local elites;

⁸ The evaluation will assess whether the strategy was based on a sound assessment of past experience, articulates a clear policy, recommends a feasible plan of action, and provides appropriate performance indicators.

- Supported the client in monitoring and evaluating the results of decentralization;
- Involved local communities, nongovernmental actors, and civil society representatives in designing and implementing the assistance; and
- Was coordinated with other development partners.

13. **Results (outputs and outcomes) of Bank Assistance.** The evaluation will select at least six countries for results assessment from the sample of 25 based on the availability of relevant data and the length of Bank assistance. In these countries, it will attempt to assess the extent to which the Bank supported “good” decentralization with a focus on outputs and intermediate outcomes around the three stated dimensions—improved delivery of services to the poor; enhanced governance at all levels; and better overall fiscal balance. The evaluation will adopt a *before and after* methodology, with assistance reflected in CASs helping to set the initial date for Bank support for decentralization. The focus on how Bank assistance influenced “good” decentralization (rather than on how Bank assistance supported the desired outcomes), will make it easier to work around complex issues related to causality and attribution to Bank assistance. The evaluation will also develop indicators to measure intermediate outcomes in consultation with internal and external evaluation experts. The evaluation will seek the views of client stakeholders in a structured manner covering beneficiaries at the local levels in the six selected countries to throw light on the causal connections and to triangulate the findings of the desk studies. In each of the sample countries, the evaluation team will review CASs; relevant lending documents; selected economic and sector work; and relevant IEG, government and donor reports, supplementing the findings through interviews with staff and non-staff country experts.

Evaluation Team and Schedule

14. The evaluation will be undertaken by IEG staff and consultants under the guidance of Ali Khadr (Senior Manager, IEGCR). The task will be undertaken by a group of IEGCR staff and consultants, led by Gita Gopal (Lead Evaluation Officer, IEGCR). Peer reviewers are Roy Gilbert (IEGSG), Chad Leechor (IEGCR), Ariel Fiszbein (DECVP), and Jennie Litvack (LCHSD). An advisory panel of external experts will be assembled to comment on the final draft evaluation report. The decentralization evaluation team will collaborate with Steven Webb and Jaime Jaramillo-Vallejo, the TTLs for the evaluations of Public Sector Reform and Legal and Judicial Reform, respectively. The evaluation is expected to be delivered to CODE in 2008. A draft outline for the evaluation report is in Annex II.

Annex I: Nature of Bank Assistance for Decentralization

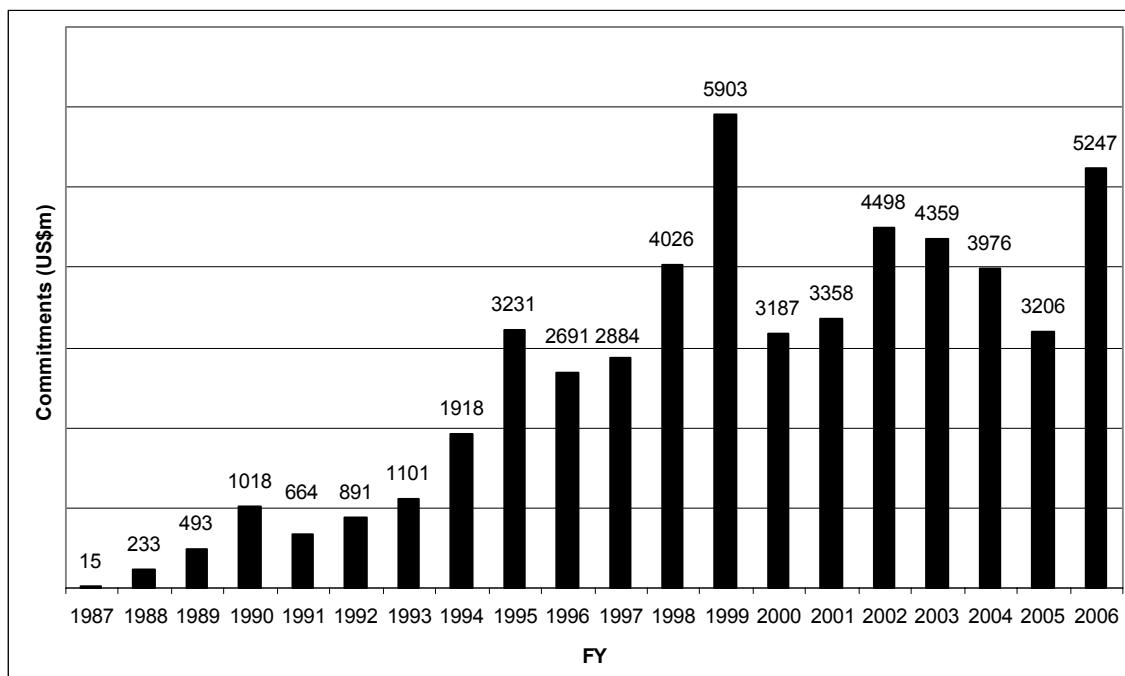
Table 1: Total Amount of Bank Assistance for Decentralization by Type of Lending

Type of Lending	No.	Commit. (US\$m)
DPL	35	3783
Investment	399	27682
Grants/technical assistance	24	100
Total	458	31565

Table 2: Dimensions and Types of Decentralization Addressed by a Sample Set of 209 of the 458 Bank-supported Projects

Dimension	% of Activities Dealing with Each Dimension	% of Activities Dealing with Each Type		
		Fiscal	Administrative	Political
Devolution	36	70	70	11
Delegation	12	42	79	4
Deconcentration	55	45	66	90

Figure 1: Activities (with some decentralization support) by Commitment between FY1987 and FY2006



Source: Bank Operational Database (that is all projects with a decentralization classification).

Note: In 1999, two SALs (Russia (US\$1.5b) and to Argentina (US\$2.5b) were the cause of the higher amount.

Table 3: IBRD/IDA/Grant Activities by Managing Sector Board

Sector Board	No. of Activities	Decentralization Cost (US\$m)
Transport	40	4670.50
Rural Sector	82	4587.79
Education	62	4345.90
Health, Nutrition and Population	55	3892.34
Public Sector Governance	48	2427.11
Energy and Mining	13	2243.60
(Blank)	15	1684.20
Water Supply and Sanitation	28	1645.10
Urban Development	29	1479.39
Social Development	18	997.85
Environment	22	904.33
Social Protection	16	870.74
Private Sector Development	7	807.10
Economic Policy	11	702.50
Poverty Reduction	5	250.00
Financial Sector	2	50.30
Global Information/ Communications Technology	2	7.00
Financial Management	1	0
Sector Board Not Applicable	2	0
Grand Total	458	31565.75

Annex II: Outline of Report on the Evaluation of Bank Assistance for Decentralization

Chapter 1: Background and Evaluation Methodology

- Decentralization and Development
- Bank Assistance for Decentralization
- Evaluation Approach and Design

Chapter II: Relevance of the Bank's Global Strategy for Decentralization

- Analytical Underpinnings for Bank Strategy
- Client-Responsiveness of Bank Strategy
- Consistency with the Bank's Mandate

Chapter III: Effectiveness of Strategy Implementation at Country Level

- Consideration of Country Context and Priorities
- Collaboration and Partnership with Client Stakeholders
- Country-level Approach/Strategy
- Addressing Inter-Regional Equities and Developmental Safeguards
- Donor Collaboration and Coordination

Chapter IV: Results of Bank Assistance

- Fiscal Reform
- Service Delivery
- Voice and Accountability
- Other Unintended Outcomes

Chapter V: Findings and Recommendations

- Critical Review of the Bank's Strategy for Decentralization
- Results of Bank Assistance
- Strengths and Weaknesses of Bank Assistance for Decentralization
- Recommendations for Bank Management