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## IMPROVING THE EDUCATION AND HEALTH OF THE POOR: DECENTRALIZATION AND POLICY REFORM IN COLOMBIA

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MEJORANDO LA EDUCACIÓN Y LA SALUD DE LOS POBRES:  
DESCENTRALIZACIÓN Y REFORMAS DE POLÍTICA EN COLOMBIA  
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## RESUMEN

Un argumento central a favor de la descentralización es el hecho de que mejorará el acceso a los servicios públicos, pero son pocos los estudios que se abocan a analizar este aspecto desde el punto de vista empírico. El presente trabajo, de orientación política, sigue al de Faguet y Sánchez (2009), explorando, por una parte, los efectos de la descentralización sobre los usos y la distribución espacial de la inversión pública y, por otra, el acceso a los servicios de salud y educación de Colombia. En él, muestro que la inversión pasó de la infraestructura a los servicios sociales y a la formación de capital humano, redirigiendo los recursos a favor de los distritos más pobres. La descentralización mejoró las tasas de inscripción en las escuelas públicas y el acceso a los servicios de salud pública, siendo los pobres los que, en ambos casos, más se beneficiaron. De allí surgen cuatro lecciones muy importantes, que podrían considerarse necesarias para el buen funcionamiento de la descentralización: a) que los gobiernos locales mantengan fuertes restricciones presupuestarias, b) que el gobierno central se reduzca, c) que se devuelvan poderes significativos para incrementar los impuestos y d) estar en conocimiento de que la descentralización consta de componentes muy distintos y separados, cuya secuencia es de suma relevancia.

Palabras clave: descentralización, educación, salud, inversión pública, Colombia, gobierno local

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ABSTRACT

A central claim in favor of decentralization is that it will improve access to public services, but few studies examine this question empirically. This paper, the policy-oriented companion to Faguet and Sánchez (2009), explores the effects of decentralization on the uses and spatial distribution of public investment, and on access to health and education services in Colombia. I show that investment shifted from infrastructure to social services and human capital formation, and resources were rebalanced in favor of poorer districts. Decentralization improved enrollment rates in public schools and access to public health services. In both cases, poor people benefitted most. Four important lessons emerge. For decentralization to work well, (i) local governments must face harder budget constraints; (ii) central government must be scaled back; (iii) decentralization is composed of distinct, separable components, the sequencing of which is important.

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Keywords: decentralization, education, health, public investment, Colombia, local government

# IMPROVING THE EDUCATION AND HEALTH OF THE POOR: Decentralization and Policy Reform in Colombia<sup>1</sup>

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25 February 2009

## Abstract

A central claim in favor of decentralization is that it will improve access to public services, but few studies examine this question empirically. This paper, the policy-oriented companion to Faguet and Sánchez (2009), explores the effects of decentralization on the uses and spatial distribution of public investment, and on access to health and education services in Colombia. I show that investment shifted from infrastructure to social services and human capital formation, and resources were rebalanced in favor of poorer districts. Decentralization improved enrollment rates in public schools and access to public health services. In both cases, poor people benefitted most. Four important lessons emerge. For decentralization to work well, (i) local governments must face hard budget constraints; (ii) central government must be scaled back; (iii) significant tax-raising powers must be devolved; and (iv) decentralization is composed of distinct, separable components, the sequencing of which is important.

*Keywords:* decentralization, education, health, public investment, Colombia, local government

*JEL:* H41, H75, H77, O1

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## 1. Introduction

Across both the developing and developed worlds, policy reformers are experimenting with a wide array of federalist tools and incentives, ranging from administrative deconcentration to the full-scale devolution of power and resources to subnational levels of government (Manor 1999, World Bank 2004). Their efforts are based on theoretical arguments about decentralization's potential to improve the efficiency of public services and make government more accountable to the governed. Of these arguments, perhaps the most important – and common – is that decentralization will improve the quality of public sector outcomes by “bringing government closer to the people”. This somewhat vague phrase can be unpacked into three effects that decentralization is meant to have that are conceptually separable, albeit interrelated. Decentralization...

- (i) places more and/or better information in the hands of public officials;
- (ii) increases the voice and participation of citizens in the government process; and
- (iii) improves the accountability, and hence responsiveness, of public servants to citizens.

All of these effects, it is claimed, come about as a result of the creation of functionally independent local governments that are physically closer to their electorates (than central government), and whose political fortunes are in the hands of those who benefit – or suffer – from the local services they provide. If “bringing government closer to the people” leads to improved information, voice and participation, and accountability in public decision-making, then local public services should improve as a result. Services can improve in two broad ways: (a) lower costs via higher productive efficiency and less corruption; and (b) higher quality, interpreted to include services better-suited to local needs and conditions. Improved services, in turn, should lead to more intensive use by local citizens, and thence to better substantive outcomes.

Examples of better substantive outcomes might include higher test scores in education, and lower mortality rates in health.

Oddly, very few studies attempt to test this argument directly. This is odder still when one considers the vast size of the decentralization literature, and the frequency with which it invokes the argument. There appear to be only three studies that address the link between decentralization and substantive outcomes directly and with rigorous quantitative evidence. Galiani, Gertler and Schargrodsky (2008) investigate evidence from a natural experiment in Argentina, and find that decentralization of school control from central to provincial governments had a positive impact on student test scores. The poorest, however, did not gain, and indeed may have lost. Habibi et al. (2007), also studying Argentina, find that increasing devolution to the provinces led to sustained improvements in human development. Infant mortality fell and educational retention rates (from primary to secondary school) rose as decentralization deepened. And Barankay and Lockwood (2007) find that greater decentralization of education to Swiss cantons is associated with higher educational attainment, allowing Swiss boys to close the gender gap with girls.

Other recent empirical studies ask the related question of whether decentralization improves local information or abets elite capture. Galasso & Ravallion (2005) use household and community level data to study results from the Food-for-Education (FFE) program in Bangladesh. They find that information on individual productivity differences is reasonably common knowledge within villages. FFE proves to be mildly pro-poor – per capita allocations are higher for the poor than the non-poor, and it is the intra-village component that has largest effect. Bardhan & Mookherjee (2006) test for elite capture in 89 villages in West Bengal. They find little evidence of elite capture in the allocation of private goods. Public goods projects, however, do

exhibit capture. They theorize that this is because public goods are inherently less transparent – it is less clear than for private goods who gets how much. Alderman (2000) finds that local government poverty targeting exceeds that which could be expected based on proxy indicators alone. Local governments appear to be using information not available to outsiders. And lastly, Loboguerrero (2008) finds that the effects of decentralization on local economic growth in Colombia depend on the governance structure of municipalities. Where local authorities have better information on local needs, resources will be allocated in the sectors with the highest rate of return, promoting growth. Where bad governance prevails, resources will flow to less efficient sectors, facilitating corruption, waste, and ultimately leading to lower growth.

This paper adds to the evidence on decentralization's effects on public sector outcomes by examining the effects of reform on: (i) the uses of public resources, (ii) their distribution across space, and (iii) poor people's access to education and health services, for the notable case of Colombia. Although these issues are a subset of the many dealt with in the decentralization literature, they are amongst the most important, and form the core of the theoretical case in favor of decentralization (Blair 2000; Dillinger 1994; Musgrave 1959; Oates 1972). This paper is the companion, policy-oriented treatment of a more technical paper by Faguet and Sánchez (2009).

Colombia is an interesting case worthy of study for three reasons. First, unlike many countries that have passed decentralization laws, Colombia implemented a significant reform vigorously, with large, measurable effects on public finances and domestic politics. Evidence of the former is provided below. Second, the quantity and quality of subnational data available for Colombia are particularly high, and demand to be exploited. Thirdly and more subtly, it is my view that much – perhaps most – of the

huge decentralization literature is plagued by an excess of cross-country comparison, and a lack of methodological and quantitative rigor.

Too much of the empirical literature is based upon: (a) large-N cross-country studies, which suffer from problems of data comparability and multiple institutional, historical, and other external factors that are not properly controlled, or (b) small-N studies of decentralization in one or a few countries, based on evidence that is limited, anecdotal, and rarely goes beyond descriptive statistics. I avoid these methodological pitfalls by conducting a data-rich study on a single country, Colombia. This allows me to focus in depth on the process and institutional context of reform, and probe its effects with a large amount of high-quality data. By studying decentralization in this way, we can combine much of the generality of large-N approaches with the detailed knowledge and analytical nuance of small-N studies, while avoiding variation in the deep structural factors that bedevil cross-country work in this field.

The rest of the paper is organized as follows. Section 2 reviews the Colombian decentralization program's legal and budgetary aspects. Section 3 provides summarized analysis of the economic outcomes of decentralization, focusing on upstream investment flows, and downstream access to education and health services. Section 4 summarizes the effects of reform in Colombia, and teases out policy lessons for other countries contemplating reform.



## 2. The Colombian Decentralization Program

Unlike countries where decentralization was implemented very quickly and with limited public debate, such as Bolivia (Faguet 2004), the Colombian decentralization process took some twenty-five years. Until the early 1990s, progress was slow and often stalled, as debates waxed and waned about loosening the reigns of control of a highly centralized administrative apparatus inherited from the Spanish crown. Colombia's mayors and governors were then directly named by central government; governors in particular were the President's *hombres de confianza*, and carried out his will in the regions. But over time the proponents of reform grew in strength, reform deepened, moving from the fiscal and bureaucratic to the political, and culminating in the constitutional reform of 1991. Ceballos and Hoyos (2004) identify three broad phases of decentralization:

*Phase 1* began in the late 1970s, and included a number of fiscal measures aimed at strengthening municipal finances. Laws 14 of 1983 and 12 of 1986 were most important, assigning increased powers of tax collection to municipalities, including especially sales tax, and establishing parameters for the investment of these funds. Locally raised municipal "own resources", the use of which is unfettered by regional or central governments, grew dramatically as a result (see figure 1).

Beginning in the mid-1980s, *phase 2* was more concerned with political and administrative matters. Amongst the most important of these measures was Law 11 of 1986, which regulated the popular election of mayors and sought to promote popular participation in local public decision-making via *Juntas Administradoras Locales*, amongst others. Reforms enshrined in the 1991 constitution, such as citizens' initiatives, municipal planning councils, open town meetings, the ability to revoke mayoral

mandates, referenda, and popular consultations, deepened political decentralization further. The 1991 constitution also established the popular election of governors.

*Phase 3* consisted of a number of laws that regulated the new constitution, and other related fiscal and administrative reforms. These measures assigned greater responsibility to municipalities for the provision of public services and social investment, and provided additional resources for the same by increasing central government transfers to local governments significantly. The laws leave local governments little discretion over transferred funds, mandating that the bulk should be spent on education and health. Automatic transfers to sub-national governments rose from about 20% to over 40% of total government spending, placing Colombia first in the region amongst countries with a unitary state, and third overall behind the two big federal countries, Brazil and Argentina (Alesina *et al.*, 2000).

It is significant that Colombia sequenced its reforms, moving forward first with measures to bolster local revenues, and only then turning to local politics (elections, popular consultations). This marks an important difference with cases of “shock therapy”, such as Bolivia and some of the transition countries. I return to this issue below.

What drove decentralization in Colombia? Ceballos and Hoyos group the motivations into two categories. The first of these is the challenge of political instability. Colombia is a violent country, with a long history of civil conflict, armed rebellion, persistently high levels of ‘common’ crime, and the use of violence as an explicit tool of political mobilization. The late 1970s saw levels of violence rise again as the internal conflict intensified. At the same time, social protests and pressures from regional groups multiplied, linked to the central state’s inability to meet demands for social services and public investment. Secondly, the political hegemony over the

instruments of the state of the traditional Liberal and Conservative parties began to be seen more and more as a liability – less the solution to a previous round of civil violence (*La Violencia*) and more a cause of the next one. Colombians from across the political spectrum became convinced that the inability of the state to respond to society's demands – and its outright absence in many areas (the 'internal frontier'), combined with the waning legitimacy of an arbitrarily restricted democracy,<sup>3</sup> were leading to public sector inefficiencies, civic discontent, and ultimately armed violence.

Thus from the start decentralization in Colombia was a multi-faceted tool designed to serve a combination of purposes particular to Colombia's troubled democracy. Through it, policy elites sought to increase the levels of electoral and citizen participation within the existing institutional framework. They sought to open the political system through popular elections at the regional and local levels, where they hoped new political movements would emerge and eventually assume power, so breaking the liberal-conservative hegemony over the resources of the state.

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<sup>3</sup> The *Frente Nacional* (1957-1974) quelled *La Violencia* by sharing out the fruits of power equally between Liberals and Conservatives, and restricting electoral competition to those two parties.

### 3. The Impacts of Decentralization

I exploit an original database of municipal characteristics using data obtained from the Agustín Codazzi Geography Institute, National Administrative Department of Statistics, National Electoral Office, National Planning Department, and the Office of the Vice Presidency (summarized in the appendix). The database covers over 95% of Colombian municipalities for the period 1994-2004.<sup>4</sup> Within the Latin American context, Colombian municipal data are relatively abundant and detailed.<sup>5</sup> All information on budgets and financial flows is panel data. All other data (e.g. demographic, infrastructural, institutional, social) is cross-sectional, from national censuses and other national surveys. The database retains data integrity by source.<sup>6</sup>

Detailed municipal-level expenditure and investment data are available for Colombia from 1993 onwards. While reliable data on municipal revenues and transfers are available up to 2007, the most recent good data on expenditures and outcomes varies between 2003-07, depending on sector. The lack of older data means that decentralized investment priorities cannot be compared to those of a relatively “pure” centralized regime (pre-1980s). The characteristics of Colombia’s reform process, marked by gradualism and long-term change, make this less of a problem. As discussed above, a number of key decentralizing mechanisms, such as citizens’ initiatives, referenda, mayoral recall, and increased resource transfers, were only put in place with the 1991 constitutional reform and accompanying regulations. These transferred resources and authority to municipalities gradually over time. Hence the outlines of Colombia’s decentralization “package” became fully clear only in 1992-93, setting off a process that deepened thereafter. Indeed, the empirical measures of decentralization all show monotonically increasing levels of

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<sup>4</sup> Health data are available for the period 1997-2004.

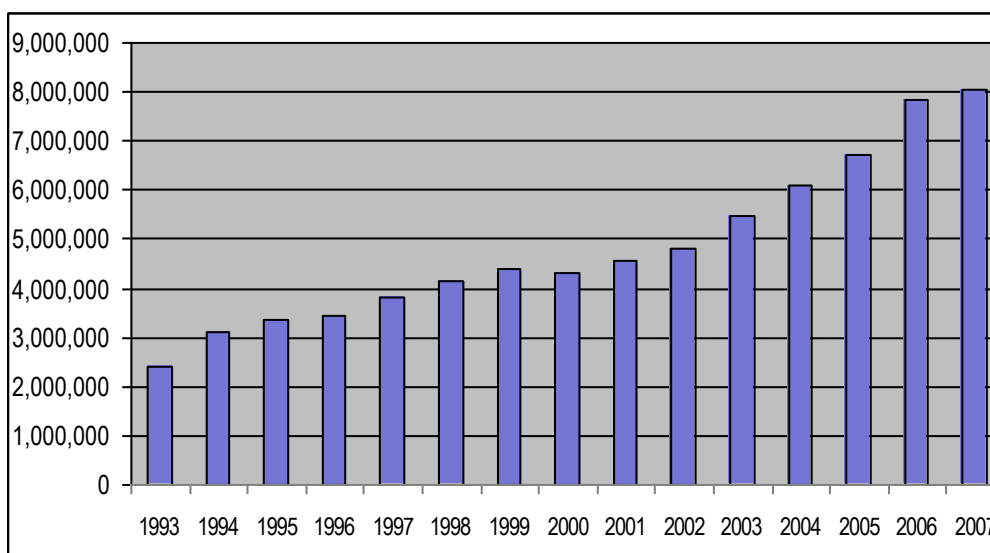
<sup>5</sup> More data on a wider variety of local characteristics are collected in Colombia than any other country in the region bar Brazil.

<sup>6</sup> Meaning information from different sources is not combined into a single variable.

decentralization throughout the period. Hence hereafter I treat the beginning of the period (1993-94) as years with relatively high centralization, and the end of the period (2004-07) as years with relatively high decentralization.

The aggregate effect of a quarter-century of political and fiscal reforms was a large increase in the political authority and operational independence of Colombia's municipal governments, accompanied by a huge rise in the resources they controlled. Municipalities were allowed to raise significant taxes and issue public debt, and could spend these resources as they chose. This gave local authorities a strong incentive to increase local tax receipts, which they did with much success as figure 1 shows.

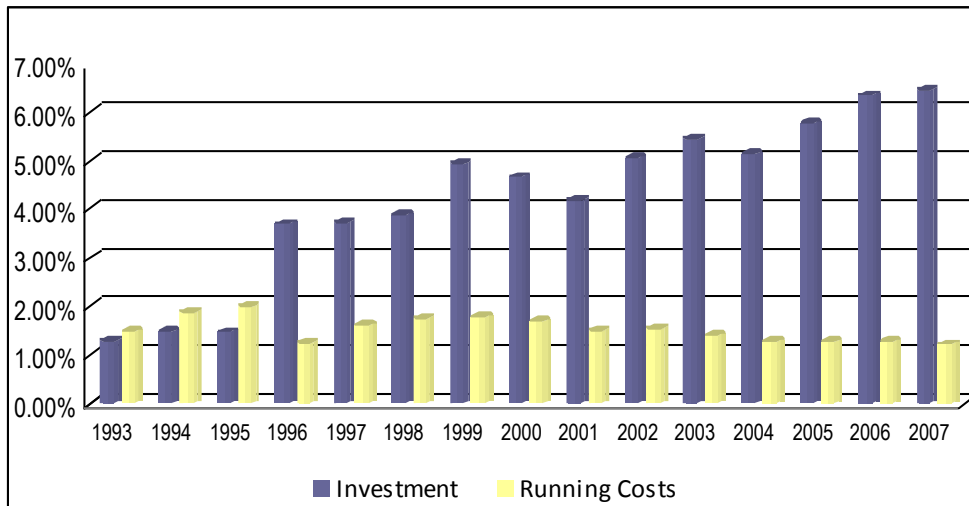
Central-to-local government transfers also increased strongly – by 139% over the same period. Overall municipal expenditures and investments rose from 2.7% to 7.6% of GDP over a decade, as detailed in figure 2. This huge rise was due entirely to increased investment, while running costs declined significantly after 1995.<sup>7</sup>



Source: National Planning Department; original calculations.

**Figure 1: Municipal Tax Receipts (constant 2007 pesos)**

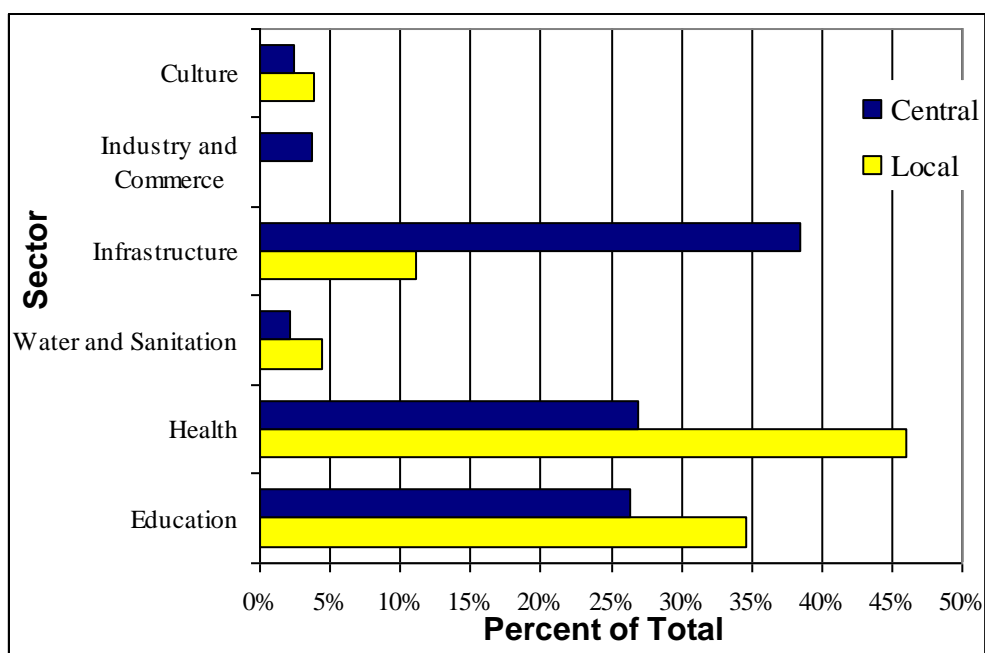
<sup>7</sup> Colombia's public accounts classify such items as teachers' and health workers' salaries as investments, and not running costs.



Source: National Planning Department; original calculations.

**Figure 2: Municipal Expenditure and Investment (%GDP)**

How were these resources invested? In order to compare like with like, figure 3 provides a sectoral breakdown of central government investment in 1994 alongside local government investment *of own resources* in 2003. The differences are large. Central government's largest category, at 38% of the total, is infrastructure, whereas local government's largest is health, followed by education, which together comprise 81% of the local investment budget. The broader pattern of dark and light bars shows a clear shift in public sector priorities, and resources, away from infrastructure and industry and commerce, into health, education, and water and sanitation.



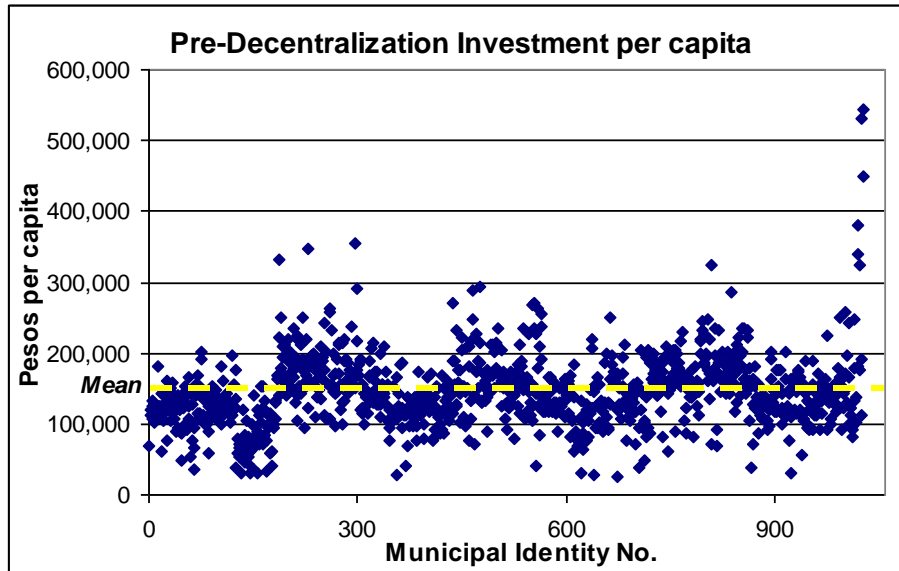
Source: National Planning Department; original calculations.

**Figure 3: Central vs. Local Government Investment**

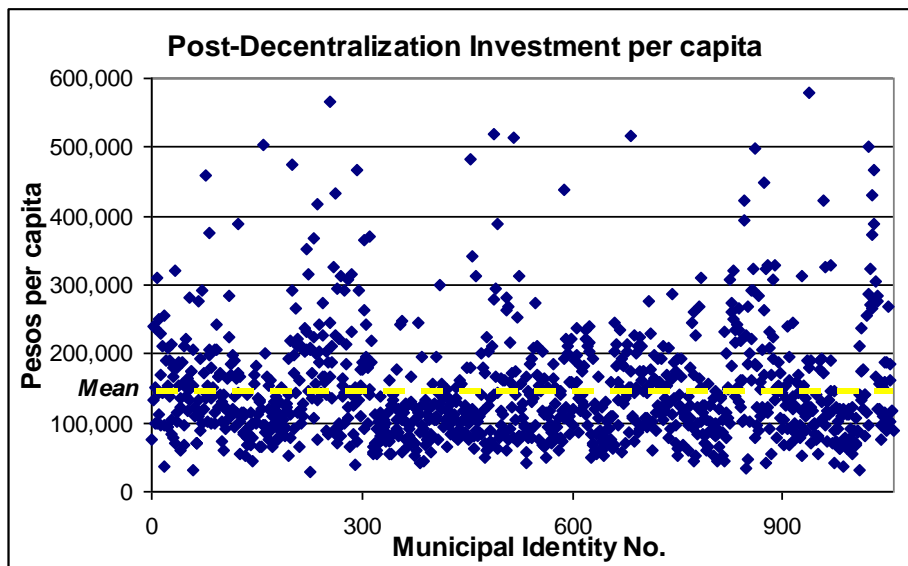
Did decentralization change the distribution of resources across space? Figures 4 and 5 compare central government investment in 1994 with local government investment in 2003, measured in constant 2002 pesos/capita. Figure 4 includes only resources controlled by the centre, and figure 5 includes only resources controlled by municipalities. Each dot represents a municipality. Moving from figure 4 to figure 5, we see that the dots become more dispersed after reform. Hence public investment became more unequal. Under centralization most municipalities were concentrated in a band between 100,000–200,000 pesos/capita, and there was a small number of ‘winner’ municipalities that received more than 300,000 pesos/capita. By the end of the period, by contrast, density in the 100,000–200,000 pesos/capita band had fallen, and there were five times more ‘winners’. Compared to other decentralizing countries, these changes are relatively modest. This is probably because centralized government in Colombia invested more equitably across space than many developing countries.

Indeed, mean public investment by central vs. local government is almost identical.<sup>8</sup>

But more detailed examination of the data shows that central resource transfers to the smallest, poorest, most rural municipalities were higher after decentralization than before.



**Figure 4: Pre-Decentralization Investment Per Capita**



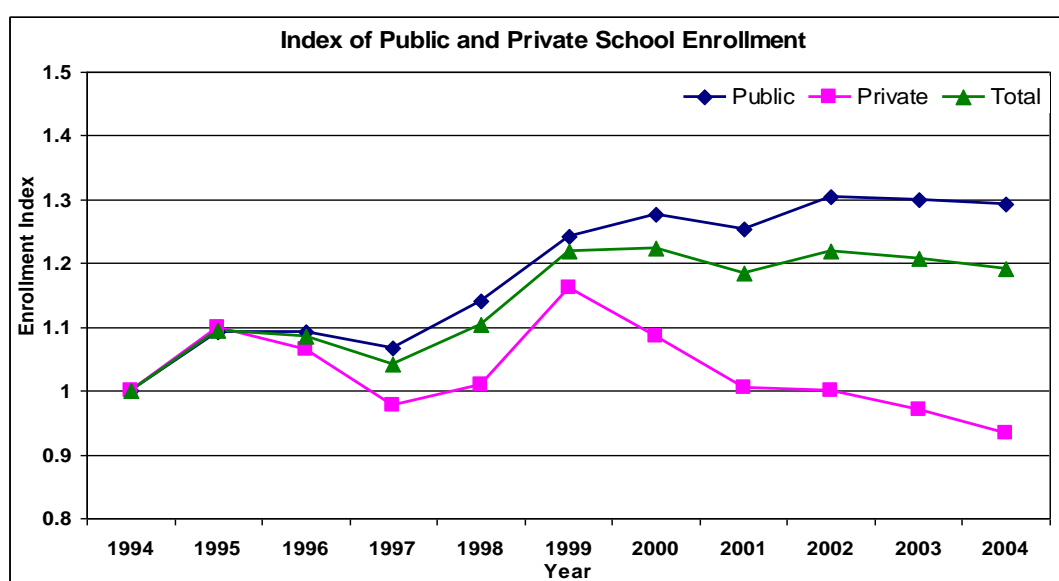
Source: Ministry of Finance, National Planning Department; original calculations.

**Figure 5: Post-Decentralization Investment Per Capita**

<sup>8</sup> Under central government mean investment was \$144,876/capita, s.d. = \$51,093/capita. Under local government mean investment was \$145,878/capita, s.d. = \$79,998/capita.



Did these changes in investment flows lead to changes in public service outcomes? Consider school attendance and access to the public health system. Figure 6 shows enrollment data over the decade for public and private schools, with enrollment in 1994 indexed to 1. At the outset, public and private enrollment trends are quite similar. After 1996 an increasing gap opens up between them, although they follow similar up and down trends. After 1999, however, slopes diverge, leading to a large gap between the two educational systems. Decentralization coincides with a 20 percent increase in total school enrollment, unequally distributed: public school enrollment increased 30 percent, while private school enrollment fell seven percent. This suggests that local governments may have been able to run schools and promote attendance better than central government had before.

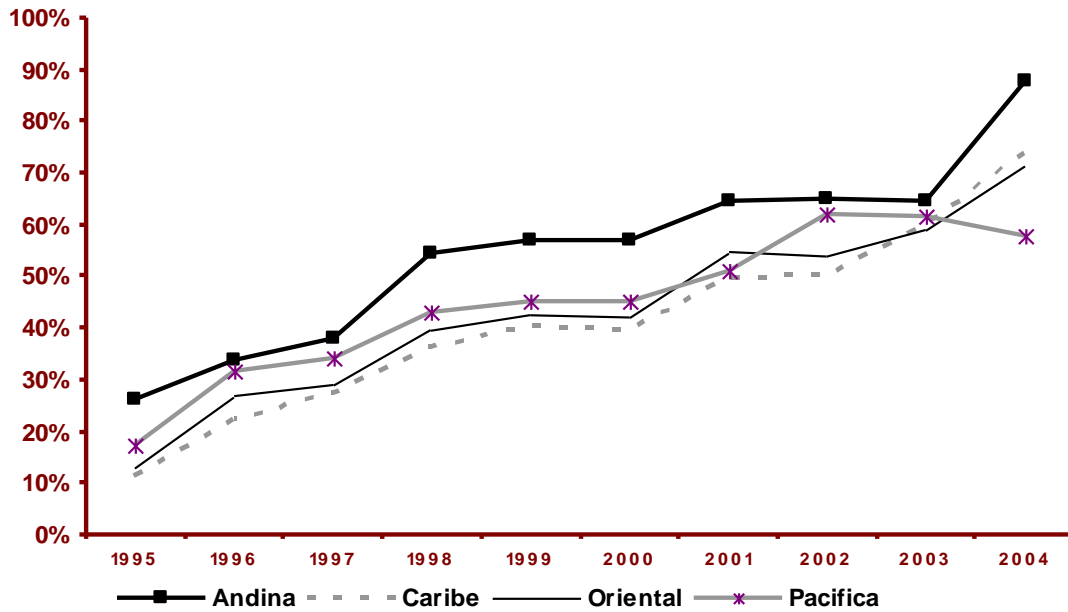


Source: National Planning Department; original calculations.

**Figure 6: Decentralization and School Enrollment**

Figure 7 shows the proportion of poor Colombians enrolled in the country's public health insurance scheme. The *regimen subsidiado de salud* is the means by which the state provides subsidized insurance covering primary and emergency health care for the poor. "Access" in this case is not a vague concept as it is in some surveys – e.g. population living within a health facility's catchment area – but, instead, has a quite

specific meaning: individuals actively enrolled in the *regimen*, with name, address, and other details registered with the Ministry of Health. It is reasonable to assume that such individuals are aware of the public health system, and of their eligibility to receive benefits from it. Hence “access” in this case means something closer to the everyday meaning of access.



Source: National Planning Department; original calculations.

**Figure 7: Health Insurance Coverage Rate by Regions**

Figure 7 shows that access to health care rose dramatically throughout Colombia. In the Andean region the proportion of poor people covered by the *regimen subsidiado* rose from 27% to almost 90%. The worst-performing region initially – the Caribbean – saw an even more dramatic gain, with access rising from about 11% of the poor to just over 70%. The period of deepening decentralization in Colombia thus coincided with a dramatic improvement in the access of the poor to health care, with increases of between 200% and 550%.

Figures 6 and 7 mirror the findings of Faguet and Sánchez (2009), which use careful econometrics to investigate the effects of decentralization on education and

health in greater detail. They find that student enrollment increased strongly in districts where educational finance and policy making were most under the control of local authorities and most free of central influence. In districts where educational finance was still based on centrally-controlled criteria, enrollment increases were between one-half and two-thirds smaller. These results control for the level of expenditure.

Decentralization thus improved enrollment rates in public schools. It is striking that these changes were even more marked in poorer, smaller municipalities.

Their evidence is similar for health. Where services were financed more out of local revenues over which local authorities have free disposal, health coverage of the poor increased strongly. Indeed, coverage in the Andean region approached 90% by 2004, a result that some far richer countries might justifiably envy. In districts where health was financed more out of the central government's health program, by contrast, access to health rose only 1/17<sup>th</sup> as much. These municipalities missed out on the vast majority of the gains that more decentralized municipalities enjoyed. As for education, coverage rose more strongly amongst poorer municipalities.

These statistics paint a rosy picture of Colombian reform. But decentralization was not entirely trouble-free for Colombia. During the period in question, Colombia's stock of public debt doubled and interest payments tripled. This formed part of a deteriorating fiscal performance from the mid-1990s onwards, which led Colombia to sign a formal agreement with the IMF for the first time in its history in an attempt to stem capital flight and ease pressure on the peso. Colombia suffered its most serious recession in three generations. Alesina *et al.* (2000) and others have blamed this fiscal deterioration largely on unbalanced local-central government fiscal relationships. Did decentralization lead to macroeconomic instability in Colombia, per de Mello (2000)?

It is a matter of record that decentralization was followed by significant borrowing by sub-national governments, and then a string of bankruptcies, which ultimately cost the national treasury dear. It is also true that fiscal imbalances between central and state governments in Argentina and Brazil, including especially an implicit political guarantee of sub-sovereign debt, contributed significantly to the recent Argentine economic collapse, and to Brazilian financial instability in the late 1990s. But it is important to remember that in Colombia the economic events in question occurred during an extraordinary period. Pres. Ernesto Samper (1994-1998) stood accused by the United States of having been elected with drug money. As American economic sanctions took their toll and Colombians demonstrated in the streets against their government, the administration undertook a comprehensive campaign to win the support of political and regional elites. Rather than scaling back the central state, as the very word 'decentralization' implies, its headcount rose; national borrowing increased as the administration sought to expand its base of support and survive the political storm. The costs of this campaign were considerable, and added significantly to Colombia's fiscal woes. Disentangling the effects of this crisis in legitimacy from those of decentralization *per se* is a complex task. Suffice it to say that a decentralization program with built-in, unnecessary fiscal imbalances contributed to Colombia's fiscal problems of the late 1990s, but is not solely responsible for them.

## 4. Conclusions and Policy Lessons

Decentralization had significant effects on the performance of the Colombian public sector. Investment in basic social services and human capital formation rose strongly after decentralization. Municipal investment rose fivefold with no increase in running costs, and local tax revenues increased strongly. More importantly, the evidence implies that one of the most powerful and frequently cited arguments in the literature – that decentralization can improve the quality of public services, and hence the flow of benefits to citizens – held true for the case of Colombia. Decentralization improved enrollment rates in public schools and access to public health services across the country. In both sectors, improvements were driven by the financial contributions of local governments, and the poor benefitted most

But decentralization is no panacea. It can be done badly, and in many nations probably has been. What lessons can we glean from the Colombian experience for other countries contemplating reform? The **first lesson** is a negative one: In order for decentralization to work well, sub-national governments must face hard budget constraints. Reform programs featuring central guarantees of sub-national debt – whether legally explicit or politically implicit – lead to fiscal imbalances that can ultimately threaten economic stability. Colombia is a good example of this.

To a large extent, hard budget constraints are implicit in the very definition of decentralization. By contrast, debt guarantees imply a continuing central intervention in local affairs that violates the functional independence that decentralization presupposes. Alesina *et al.* suggest simply banning sub-national governments from taking on debt, allowing them only to ‘borrow’ against future Treasury disbursements. Another solution could be strict limits on borrowing levels and maturities; a third would be for the centre to simply refuse to bail out local governments. This last option has proved politically

extremely difficult in many countries, some of which have devised creative alternatives (Ter-Minassian 1997). In Hungary (Singh and Plekhanov 2005) and Poland (Swianiewicz 2004), for example, implicit guarantees of local debt are combined with legal limits on debt levels, and strong internal controls and auditing by the centre. The result has been few problems with local bailouts, and a pattern of timely repayment. Singh and Plekhanov find corroborating evidence from an analysis of data from 44 countries. The precise form of limits and restrictions is less important than the principle – decentralization requires hard budget constraints.

The **second lesson** follows on from the first. If decentralization means devolving resources, responsibility and authority from higher to lower levels of government, then it also implies that the higher levels must be scaled back. The central headcount must be reduced, as officials are transferred to regional and local governments, or simply fired. Some reforming countries (e.g. Bolivia) did precisely this. But Colombia did not, and the consequences were dire. Why did Colombia fail where others succeeded? A definitive answer is beyond the scope of this paper. But at least part of the answer can be found in Colombia's deep crisis of legitimacy in the late 1990s. As mentioned above, the logic of securing political support for an embattled administration precluded scaling back central government spending, and so the Colombian state expanded at all levels for several years, provoking fiscal crisis.

The **third lesson** concerns the importance of devolving significant tax-raising powers. Local taxes are important, first, because they provide more resources for local services. Second, to the extent that public expenditure implies a direct cost to the local economy, local policy debates will weigh competing options more carefully, and better decisions will be made. If local budgets come entirely from central transfers, by contrast, citizens may feel less ownership over municipal resources, and accordingly

less interest in how they are spent. This translates into less interest in local government, and less oversight and accountability.

But *how* powers and responsibilities are devolved is also important. The reason Colombia has made much progress increasing local revenues is at least partly due to the sequencing of reforms. Combining both political and fiscal decentralization in a single, ‘shock therapy’ treatment, as Bolivia and many transition countries did, risks overwhelming smaller, administratively weaker municipalities. In learning their new roles and responsibilities, public officials in such places naturally focus on some parts of the reform, such as the investment budget, or elections and consultations, and ignore others, such as local tax revenues. Contrast with Colombia, where fiscal reforms that emphasized local tax revenues came first, followed by political reforms, and then further fiscal and administrative reforms. Sequencing gave Colombia’s local officials time to focus on one aspect of a complex package, often under direct central government tutelage, before being confronted with another.

The **fourth lesson**, then, is that decentralization is not so much a policy package as a dynamic process. It *can* be broken down into discrete steps – for example fiscal, political and administrative. The sequencing of these steps is important, and paying careful attention to that sequence improves outcomes. The ‘optimal’ sequence of reforms, however, is likely to differ country-by-country, depending on history and initial conditions.

Getting these lessons right is of seminal importance to any decentralization program. Done badly, it can make government more costly and bureaucratic with little or no offsetting gain. But under the right circumstances, decentralizing resources and political authority can generate real accountability where none existed before, and improve the quality of government a society achieves.





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