



# Decentralization's Effects on Educational Outcomes in Bolivia and Colombia

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**Summary.** — The effects of decentralization on public sector outputs are much debated but little agreed upon. This paper compares the remarkable case of Bolivia with the more complex case of Colombia to explore decentralization's effects on public education outcomes. In Colombia, decentralization of education finance improved enrollment rates in public schools. In Bolivia, decentralization made government more responsive by re-directing public investment to areas of greatest need. In both countries, investment shifted from infrastructure to primary social services. In both, it was the behavior of smaller, poorer, more rural municipalities that drove these changes. A key innovation of this paper is a methodology for estimating the effects of decentralization in a data-poor environment.

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## 1. INTRODUCTION

Over the past few decades decentralization has become one of the most debated policy issues throughout both developing and developed worlds. It is seen as central to the development efforts of countries as far afield as Chile, China, Guatemala, and Nepal. And in the multiple guises of subsidiarity, devolution, and federalism it is also squarely in the foreground of policy discourse in the European Union, United Kingdom, and United States. But surprisingly, there is little agreement in the empirical literature on the effects of decentralization on a number of important policy goals. Advocates (e.g. Olowu & Wunsch, 1990; Putnam, 1993; UNDP, 1993; World Bank, 1994) argue that decentralization can make government more responsive to the governed by “tailoring levels of consumption to the preferences of smaller, more homogeneous groups” (Wallis & Oates, 1988, p. 5). Critics (e.g. Crook & Sverrisson, 1999; Prud'homme, 1995; Samoff, 1990; Smith, 1985; Tanzi, 1995)

dispute this, arguing that local governments are too susceptible to elite capture, too lacking in technical, human, and financial resources, and too corrupt to produce a heterogeneous range of public services that respond efficiently to local demand. And their profligacy is likely to endanger macroeconomic stability. But neither side is able to substantiate its arguments convincingly with empirical evidence.

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Much of the debate has taken place in these pages, similarly without resolution. Of 24 articles on decentralization, local government and responsiveness published in *World Development* since 1997, 11 report broadly positive results, and 13 are negative. Fiszbein (1997), Shankar and Shah (2003), de Oliveira (2002), and Parry (1997) are among the most enthusiastic, finding that decentralization can spur capacity building in local government (Colombia), decrease levels of regional inequality through political competition (a sample of 26 countries), boost the creation and administration of protected areas (Bahia, Brazil), and improve educational outcomes (Chile), respectively. Rowland (2001) and Blair (2000) find that decentralization improved the quality of democratic governance achieved in both large cities and small towns. And Petro (2001) finds that local government played a pivotal role in raising levels of social capital in Novgorod, Russia by establishing common social values and priorities for the community. Other authors, such as Andersson (2004), Larson (2002), McCarthy (2004), and Nygren (2005), are more cautious, arguing broadly that decentralization is a complex, problematic phenomenon, but may ultimately have positive effects on local welfare.

Among skeptics, some of the most striking are Ellis, Kutengule, and Nyasulu (2003), Ellis and Mdoe (2003), and Ellis and Bahiigwa (2003), who find that decentralization will likely depress growth and rural livelihoods by facilitating the creation of new business licenses and taxes that stifle private enterprise (Malawi), and propagate rent-seeking behavior down to the district and lower levels, so becoming "part of the problem of rural poverty, not part of the solution"<sup>1</sup> (Tanzania and Uganda), respectively. Similarly, Bahiigwa, Rigby, and Woodhouse (2005) and Francis and James (2003) show that decentralization in Uganda has not led to independent, accountable local governments, but rather to their capture by local elites, and hence to the failure of decentralization as a tool for poverty reduction. Porter (2002) agrees for Sub-Saharan Africa more generally. Regarding the environment, Woodhouse (2003) predicts that decentralization will fail to improve access of the poor to natural resources, or reduce ecological damage. Casson and Obidzinski (2002) go further, reporting that decentralization in Indonesia has spurred depredatory logging by creating bureaucratic actors with a stake in its proliferation. The cross-country evidence of Martinez-Vazquez

and McNab (2003) is similarly unhelpful, showing that we do not know empirically whether decentralization affects growth directly or indirectly, and have no clear theoretical grounds for predicting a relationship either way. Worse, de Mello's (2000) study of 30 countries predicts that failures of intergovernmental fiscal coordination will lead to chronic deficits and, eventually, macroeconomic instability. The papers of Sundar (2001), Thun (2004), Wiggins, Marfo, and Anchirinah (2004) offer more cautious, nuanced arguments, that are on the whole skeptical about the possibility of beneficial change through decentralization.

The larger literature is similarly inconclusive. Among studies of Latin America, Campbell (2001) highlights the extraordinary scope of authority and resources that have been decentralized throughout the region, and argues that this "quiet revolution" has generated a new model of governance based on innovative, capable leadership, high popular participation, and a new implicit contract governing local taxation. But Montero and Samuels (2004) argue that the political motives of reformers often combine with ex-post vertical imbalances to make decentralization bad in terms of elite capture, regional inequality, and macroeconomic stability. Rodríguez-Posé and Gill (2004) elaborate further on the tension between inequality and stability for the case of Brazil, while Eskeland and Filmer (2002) find econometric evidence that decentralization did lead to improvements in Argentine educational achievement scores.

Among the broadest international surveys: Rondinelli, Cheema, and Nellis (1983) note that decentralization has seldom, if ever, lived up to expectations. Most developing countries implementing decentralization experienced serious administrative problems. Although few comprehensive evaluations of the benefits and costs of decentralization efforts have been conducted, those that were attempted indicate limited success in some countries but not others. A decade and a half later, surveys by Piriou-Sall (1998), Manor (1999), and Smoke (2001) are slightly more positive, but with caveats about the strength of the evidence in decentralization's favor. Manor ends his study with the judgment that "while decentralization... is no panacea, it has many virtues and is worth pursuing," after noting that the evidence, though extensive, is still incomplete. Smoke finds the evidence mixed and anecdotal, and asks

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