



Services for Rural Development

Sector Project "Knowledge Systems in Rural Areas"



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1. Introduction

Recent international discussion on decentralization in the context of public sector reform has sparked lively discussion on the (new) role of the private sector.

1.1. Definition

Decentralization is defined by Rondinelli (1981) as "the transfer or delegation of legal and political authority and resources to plan, make decisions and manage public functions from central government and its agencies to field organisations and those agencies, subordinate units of government, semi-autonomous local governments or public corporations, area-wide or regional development authorities or functional authorities, autonomous local governments or non-governmental organisations". This definition can be simplified as the transfer of power to local-level authorities. It includes all three frames of decentralization: **deconcentration** as a means of transferring administrative functions to subordinate sub-national units, **delegation** as a means of transferring complex tasks and responsibilities to semi-independent authorities and **devolution** as a transfer of power to sub-national political entities. This usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to make investment decisions. Litvack and Seddon (2000) from the World Bank define decentralization in this context as "the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organisations or the private sector". In this definition, economic decentralization is included. It should be appreciated that the process of decentralization often occurs at the same time as increasing emphasis is being placed on market-related solutions to resource allocation problems. In connection with this, an examination of the potential role of the private sector in performing and/or financing many of the functions previously performed by the state is also made. In developing countries this has been probably most marked in regional rural development programmes concerning agricultural services.

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1.2. Rationale

The general rationale for decentralization is based on the assumption that good governments are those closer to the people. The economic rationale for decentralization is its expected positive impact on efficiency, equity and macro stability. The specific services to be decentralised and the type of decentralization will depend on economies of scale affecting technical efficiency and the degree of spill over effects beyond jurisdictional boundaries.

2. Types and Forms of Decentralization

2.1. Basic Types of Decentralization

Generally one can distinguish between political decentralization, administrative decentralization, fiscal decentralization and market decentralization.

Political decentralization is equal to the transfer of political authority or responsibility from central government to bodies and stakeholders in the civil society and the private sector. This type of decentralization aims to give citizens and their (elected) representatives more power in public decision-making. **Administrative decentralization** is the transfer of responsibility for planning, financing and managing certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional and functional authorities. This type of decentralization can be further differentiated according to the degree of transfer of power to local-level authorities (see above 1.1.)

The transfer of financial sources, decision-making and responsibilities from central government to local authorities can be called **fiscal decentralization**. Linked to the questions "Who sets and collects taxes?" "Who undertakes which expenditures?" various forms of fiscal decentralization (self-financing, co-financing, expansion of local revenues, transfer of general revenues, municipal borrowing) can be defined.

Economic or market decentralization means the denationalisation of the economy by introducing decentralised governance mechanisms and market-oriented incentives. Here we can further differentiate between deregulation, commercialisation, privatisation and private-public partnerships. Economic or market decentralization can be regarded as the most complete form of decentralization from a governmental perspective, as it shifts (financial) responsibility from the public to the private sector. Functions and services that had been primarily or exclusively the responsibility of government in the past are now carried out by businesses, community groups, cooperatives, private voluntary associations, and other non-governmental organisations. In practice, all services do not need to be decentralised in the same way or to the same degree. The nature of most local public services limits this option and establishes a governmental role in ensuring the provision of these services, but it does not automatically require the public sector to be responsible for the delivery of all services.

2.2. Sectoral Decentralization

Sectoral decentralization may be defined as the transfer of the relevant authority, resources and competence from sectors at a national level to the corresponding sectors at a local level. This implies the relevant local actors of the sectors taking up the particular sector's functions and responsibilities. Sectoral decentralization and political devolution should be complement-ary processes, it thus giving local councils effective power on development activities (Rauch and Charlier 2000). There may be far-reaching sectoral deconcentration without incorporate-Ing the sector under a decentralised system of local government. Important cornerstones in sectoral decentralization are:

- Analysis of the framework conditions for sectoral decentralization in agriculture (political, economic, social and environmental aspects of the agricultural sector according to institutional levels and spatial/administrative levels, as well as the current decentralization policy and its implications for agriculture, including constitutional issues)

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- Analysis of the potential for sectoral decentralization (benefits and constraints), defining the implications for regional rural development, natural resource management and agricultural service provision
- Clarification of the new roles and functions of the public sector at various levels, defining the tasks and responsibilities of ministries, departments and agencies (MDA) at national, regional and district levels, as well as an institutional review, analysing human resource capacities and capabilities
- Clarification of the new roles and functions for the civil society and the private sector (analysis of institutional and organisational options, i.e. strengths and weaknesses of the private sector and civil society)
- Financial implications of sectoral decentralization (analysis of financial management).

Devolution of power related to sector departments has to be distinguished by specified functions (e.g. disciplinary, promotion, 'hire & fire', training, professional guidance, planning, budgeting, etc.). There are no standard solutions regarding which functions should be handed over to local councils nevertheless there are some general guidelines:

- It is not appropriate to hand over all sectoral functions to local councils because professionalism must be maintained. Sector ministries should have a role in defining contents, providing professional guidance and managing senior staff.
- There is a range of functions where both sides should play a role in decision-making, i.e. where the matching of local conditions and national/sectoral guidelines is required.
- Operational issues, physical investments (standards, locations etc), or the management of lower/medium level staff, planning and budgeting are areas usually suitable for local government control.

3. Strategies of Decentralization

3.1. Objectives

Decentralization strategies provide better chances of establishing community involvement and local ownership of public facilities through public-community partnerships. This enhances the scope for sustainability. Time-consuming decision-making procedures within hierarchical bureaucratic systems and related demotivation of staff could be avoided. Multi-sectoral coordination of activities at a local or regional level can be easier without involving the central institutions. The performance of public service providers could be improved as a result of competition between (semi) autonomous local government units. Last but not least, political stabilisation and maintenance of national unity by providing a certain degree of autonomy to regional societies could be established. Decentralization often is misused as a synonym for democratisation and privatisation, but one has to distinguish these terms, as they are complementary processes, but not the same:

- **Decentralization and democratisation** are different processes and should not be conflated. There are as many examples of undemocratic (e.g. feudalistic) regional or local governments as of democratic and centralistic systems. Decentralised systems, however, can contribute to local democracy, thus creating a basis for a more democratic society. Decentralization must, therefore, be linked with local democracy to provide the expected benefits for people.
- **Decentralization and privatisation** are also different, but some times inter-related processes. There are situations with favourable conditions for decentralised governments but unfavourable conditions for private market systems, and vice versa. However, decentralization is often one of those instances where good politics and good economics can serve the same end. The political objectives of increasing political responsiveness and participation at a local level can coincide with the economic objectives of coming to better decisions about the use of public resources and increasing people's willingness to pay for local services.

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3.2. Prerequisites for successful decentralization implementation

There is no blueprint on how to implement decentralization successfully. However, in order to contribute to its objectives, some prerequisites for a successful decentralization process have to be fulfilled, such as political will. Taking into consideration that decentralization means the redistribution of power and control it would be unrealistic to expect wholehearted political support from all parts of the government in favour of decentralization. Strong opposition from certain sections of the political and administrative system will be the rule rather than the exception. But there should at least be:

- a majority decision of the parliament
- a conclusive legal framework which as a minimum allows meaningful steps towards decentralization to be taken, e.g. the creation of a national constitutional, legal and regulatory framework that can be used to enshrine the principles that decentralization should follow
- one powerful group within the political system, which actively supports decentralization
- strong local elites who are actively interested and prepared to take over responsibility for public affairs and development in their regions.

Decentralization is a process, which needs guidance and support from national governments, and it is supposed to result in a situation of shared responsibilities between different levels of government. Consequently, it needs a certain **capacity of the central government**. Nevertheless, establishing a decentralised local system of government may be the only way to make a society function where there is a complete breakdown of state functions.

The more the **economic resources** are distributed in a regionally balanced way, the better the chances that a decentralised system can be based on local revenue sources (which support accountability). Often, the participation of the population in broad decision-making and their interest in taking over responsibility are mentioned as important prerequisites for successful decentralization. However, participation and decentralization have a symbiotic relationship, as successful decentralization requires some degree of local participation because local governments can respond better to local demands. Furthermore, the process of decentralization can itself enhance the opportunities for participation by placing more power and resources at the community level.

The overall guiding principle in planning and implementing any decentralization activity should be the **subsidiarity**, i.e. higher levels should not take over functions which can be adequately fulfilled at lower levels. This implies that no dogmatic formulae or standard solutions should be imposed from outside, decisions have to be tailored to the problems but also in line with national principles and combinations of central and decentralised responsibilities have to be clearly spelled out. Last but not least central governments have to ensure equal standards and integration in society.

3.3. GTZ Strategies of Decentralization

The GTZ's Regional Rural Development plan (GTZ 2000) includes the following strategies designed to make decentralization an effective means of rural development promotion:

- **Strategy A** - Dealing with resistance to decentralization: This strategy requires to be pre-pared for a long-term struggle and furthermore the management of the decentralization process.
- **Strategy B** - Designing appropriate decentralised systems: Dealing with existing capacity limitations by following the principle of subsidiarity and by right-sizing decentralised units is necessary. The alignment of sectoral and regional/local programmes should follow the principle “where sectors & subjects meet people & places”. Furthermore unfunded mandates should be avoided by designing fiscal decentralization. Establishing political accountability by two-way control from above as well as from below is an important component of this strategy. Autonomy without disintegration through horizontal coordination is the general goal.
- **Strategy C** - Capacitating decentralised structures: The capacities of managing a decentralised planning and budgeting process have to be existent. Institutional preparedness for multi-sectoral

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coordination of implementation is a crucial requirement for financial management and for getting public participation properly organised. Finally the managing of partnerships should be implemented.

4. Potentials and Limitations of Decentralization

Decentralization can improve the quality of government and the representation of local business and citizens' interests. Decentralising state power and resources brings government closer to the people and vice versa. It offers the chance to match public services more closely to local demands and preferences and to build more responsive and accountable government from the bottom up. Decentralization can have also profound effects on economic outcomes such as macroeconomic stability, efficiency and equity. However, the discourse on the advantages of decentralization is usually a rather normative one. A decentralised structure is above all supposed to:

- improve public service delivery by increasing the efficiency and effectiveness of public service offers: these are expected to become more relevant to local needs, more flexible, more innovative, and cheaper. In addition to these factors, the comparative advantages of local enterprises and the local non-profit sector can be mobilised.
- foster democratisation by integrating people's needs and interests; giving third-sector organisations and local enterprises the freedom to act and articulate their needs; providing a training ground for participatory culture; negotiating capacity and conflict management; and granting a certain degree of autonomy and political integration to minorities.
- strengthen national integration: a decentralised administrative structure spreads political power vertically, enriching the horizontal separation of powers between the legislature, executive and judiciary. The different levels can be bound together through common decision-making or planning bodies, or the common execution of tasks.

However, decentralization is not a panacea for solving economic and social disparities, because it does have limitations and potential disadvantages. If not properly designed and sufficiently supported, it may add to the problems of the public sector rather than achieve the above-mentioned objectives. When not implemented carefully, decentralization could:

- increase the ineffectiveness of the government system by simply further adding to existing bureaucracy, thus increasing public expenditure and complicating public procedures
- weaken administrative performance by handing over responsibilities to less qualified staff or by putting professional staff at the disposal of parochial interests of less qualified functions
- deepen existing regional inequalities and promote the disintegration of the regions, thereby contradicting nation-building efforts in ethnically heterogeneous countries
- increase poverty and gender inequality by giving local elites, who may be less sensitive to equality concerns, more influence on public expenditure
- reinforce traditional client and feudalistic power-relationships in rural regions, rather than promoting local democracy and accountability
- result in a duplication of efforts and provide destructive incentives to private investors as a result of unhealthy competition between local or regional authorities
- create additional opportunities for corruption
- encourage separatist tendencies by providing separatist political movements with resources and an arena to realise their interests.