

DECENTRALIZATION: A SAMPLING OF DEFINITIONS

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evaluation of the UNDP role in decentralization and local governance)**

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1.0 INTRODUCTION

“One of the most critical prerequisites to translate decentralization from theory to practice is a clear understanding of the concept. To be able to better envision what decentralization means, how best it can be planned and implemented, what its intricacies are, and how its challenges can be overcome, development practitioners should be equipped with appropriate tools which could provide an analytical knowledge of decentralization from a conceptual viewpoint accompanied by real and field-tested examples of the concept in practice.”¹

One of the tasks associated with the thematic evaluation of UNDP supported decentralization and local governance initiatives is the documenting of the concept of decentralization (and decentralization as linked to local governance). The above quote drawn from a recent UNDP document underscores the need to develop a better understanding of the concept.

It should be noted at the outset that decentralization is not so much a theory as it is a common and variable practice in most countries to achieve primarily a diverse array of governance and public sector management reform objectives. In fact, a quick review of the literature shows that there is no common definition or understanding of decentralization, although much work has gone into exploring its differing applications. Decentralization means different things to different people, and it is primarily a function of the application, as will be seen in the following.

This report, prepared by one of the evaluation team members (Richard Flaman), presents a non-exhaustive review definitions of primarily decentralization, and to a lesser extent decentralization as linked to local governance. Descriptions of decentralization are drawn primarily from recent UNDP reports and publications, and from a selection of other documents from the World Bank and other sources. This report presents a sampling of varying interpretations of decentralization and quotes extensively from existing publications and reports.

The literature and sources on decentralization are vast. Simple Web-site searches uncover references in the thousands (e.g. Yahoo uncovered over 5,000 references). This is probably the tip of the iceberg, as there are likely many thousands of other documents on decentralization just in the donor domain alone (e.g. project documents, evaluations and reviews, etc.). When decentralization is broadened to incorporate such concepts as devolution, alternative services delivery, privatization and so on, then the resource base on the subject would undoubtedly be massive.

Section 2 of this report presents a range of definitions and descriptions from recent UNDP sources. Section 3 elaborates on the concept of decentralization, again drawn from primarily UNDP sources. Section 4 presents the definitions of ‘decentralized governance’ and the UNDP program in this area. Section 5 presents selected views of decentralization from other sources such as the World Bank. Section 6 elaborates on decentralization in the context of alternative services delivery – an area of increasing application world-wide. Section 7 presents a preliminary assessment of the strengths and weaknesses of the definitions. The annexes elaborate on selected aspects of decentralization. The Table of Contents points to the

¹ UNDP, Decentralized Governance Monograph: A Global Sampling of Experiences, Management Development and Governance Division, Bureau for Policy Development, April 1998, p. 6

complexity of this topic. This report can be read in whole or in part, as it is primarily intended as a reference document for the Evaluation team.

2.0 UNITED NATIONS AND UNDP DEFINITIONS

2.1 DECENTRALIZATION

2.1.1 Selected Meanings of Decentralization

“ . . . Decentralization, or decentralizing governance, refers to the restructuring or reorganization of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity, thus increasing the overall quality and effectiveness of the system of governance, while increasing the authority and capacities of sub-national levels. . . . Decentralization could also be expected to contribute to key elements of good governance, such as increasing people's opportunities for participation in economic, social and political decisions; assisting in developing people's capacities; and enhancing government responsiveness, transparency and accountability.”²

“ . . . While decentralization or decentralizing governance should not be seen as an end in itself, it can be a means for creating more open, responsive, and effective local government and for enhancing representational systems of community-level decision making. By allowing local communities and regional entities to manage their own affairs, and through facilitating closer contact between central and local authorities, effective systems of local governance enable responses to people's needs and priorities to be heard, thereby ensuring that government interventions meet a variety of social needs. The implementation of SHD strategies is therefore increasing to require decentralized, local, participatory processes to identify and address priority objectives for poverty reduction, employment creation, gender equity, and environmental regeneration.”³

“ . . . Decentralization stimulates the search for program and policy innovation, first of all because it is, per se, an innovative practice of governance. Second, because through its implementation, local governments are required to assume new and broader responsibilities in order to provide public services for all. The assumption of new responsibilities through decentralization often requires improved planning, budgeting and management techniques and practices; the adoption of new tools; and the development of improved human resources to operate the decentralized programmes.”⁴

“ . . . Decentralization is a complex phenomenon involving many geographic entities, societal actors and social sectors. The geographic entities include the international, national, sub-

² UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centered Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, p. 4

³ UNDP, Decentralized Governance Monograph: A Global Sampling of Experiences, Management Development and Governance Division, Bureau for Policy Development, April 1998, p. 6

⁴ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 26

national, and local. The societal actors include government, the private sector and civil society. The social sectors include all development themes - political, social, cultural and environmental. In designing decentralization policies and programmes it is essential to use a systems-approach encompassing these overlapping social sectors and the different requirements which each makes. . . . Decentralization is a mixture of administrative, fiscal and political functions and relationships. In the design of decentralization systems all three must be included.”⁵

2.1.2 What Decentralization Is Not

“... *An alternative to centralization*: Decentralization is not an alternative to centralization. Both are needed. The complementary roles of national and sub-national actors should be determined by analyzing the most effective ways and means of achieving a desired objective. For example, a national road system should be designed with both local input and national coordination. Foreign policy should be a national function based on the views of the citizenry. Solid waste management should primarily be dealt with through local mechanisms. And so forth. In designing a decentralization strategy it is imperative that such an analysis be done. ...

“... *Exclusively public sector reform*: Decentralization is much more than public sector, civil service or administrative reform. It involves the roles and relationships of all of the societal actors, whether governmental, private sector or civil society. The design of decentralization programmes must take this into account. This is why UNDP prefers the use of the term "decentralized governance" rather than the term decentralization.”⁶

2.2 FORMS OF DECENTRALIZATION (COHEN AND PETERSON)

A recent work carried out by Cohen and Peterson⁷ contains a major section on the evolution of decentralization as both a concept and as a means for development. The authors identify six major forms of decentralization (which they also refer to as ‘classification systems’ and ‘approaches’ – further adding to the confusion over definition!). In their own words (p. 16) they state: “*Several different ways of classifying forms of decentralization have been promoted over the past few decades by those making a clear distinction between centralization and decentralization. What is common to these classification systems is that they recognize the need for a definition that is grounded on more than legal concerns. Six approaches to identifying forms of decentralization can be identified in the literature.*” The following forms of decentralization are quoted directly from their text (pp. 16 – 19)

2.2.1 Forms According to Historical Origins

“... The first approach classifies forms on the basis of historical origins. A focus on

⁵ UNDP, Factors to Consider in Designing Decentralized Governance Policies and Programmes to Achieve Sustainable People-Centered Development, Management Development and Governance Division, February 1998, p. 1

⁶ UNDP, Factors to Consider in Designing Decentralized Governance Policies and Programmes to Achieve Sustainable People-Centered Development, Management Development and Governance Division, February 1998, p. 1

⁷ Cohen, J. M., Peterson, S. B., Administrative Decentralization: Strategies for Developing Countries, Kumarian Press (published for and on behalf of the United Nations), Draft Proof for Publication, June, 1999; pp. 16 - 20

history has led one specialist to assert there were four basic decentralization patterns: French, English, Soviet, and Traditional. Today this system of classification is viewed as both too simplistic and analytically weak.” (p. 16)

2.2.2 Territorial and Functional Decentralization

“ . . . A second approach distinguishes the forms of decentralization by hierarchy and function. According to this new "territorial decentralization" refers to the transfer of centrally produced and provided public goods and services to local-level units in the government hierarchy of jurisdictions. "Functional decentralization" refers to the transfer of such central responsibilities to either parastatals under the control of the government or to units outside governmental control, such as NGOs or private firms. The problem with this classification is that it is too rudimentary to facilitate clarity over design and implementation issues, such as legal basis, structural organization, division of powers, or administrative, financial, and budgetary procedures. Further, the emphasis on territory highlights a major misconception about decentralization: that decentralization is largely focused on the process of transferring public sector tasks out of the capital city and into the hinterland. This spatial view of decentralization is naive and obscures the complexities of the concept. The notion of functional decentralization is more useful, for it underlies the current view . . . that administrative decentralization is the expansion of the array of institutions and organizations carrying out collective public sector tasks and that this can happen in the capital city as well as in other urban areas and the countryside.” (pp. 16-17)

2.2.3 Problem and Valued-Centered Forms

“ . . . The third approach identifies forms of decentralization by the problem being addressed and the values of the investigators. This approach is best illustrated by the work of the Berkeley Decentralization Project, which was primarily interested in finding ways of bringing more effective development programs and projects to the rural poor. . . . the Berkeley group identified eight forms of decentralization: (1) devolution, (2) functional devolution, (3) interest organization, (4) prefectorial deconcentration, (5) ministerial deconcentration, (6) delegation to autonomous agencies, (7) philanthropy, and (8) marketization. In formulating this set of forms, most of the Berkeley group was not interested in addressing larger generic issues related to the concept of 'decentralization'. Rather, it focused on studying the linkages of the center and the periphery on a sector-by-sector basis. In studying these linkages it formulated an idiosyncratic set of forms that ensured, on a project-by-project basis, that development interventions addressed the vulnerability of the rural poor and the threat to them by central and local elites seeking their own interests. The problem with this approach to addressing particular weaknesses of over-centralization is that it is eclectic and dependent on the administrative, political, economic, and value rationale of the analysts addressing the problem.” (p. 17)

2.2.4 Service Delivery Forms

“ . . . A fourth approach focuses on patterns of administrative structures and functions that are responsible for the production and provision of collective goods and services. One of the first of these was presented in 1962 by the United Nations. It identified four forms of decentralization: local-level governmental systems, partnership systems, dual systems, and integrated administrative systems. The problem with this approach is that it is not analytical enough to deal with the increasing diversity of structural and functional designs that marks the last three decades.” (pp. 17-18)

2.2.5 Single Country Experience Form

“... A fifth approach takes a narrow definition of decentralization, typically based on the experience of a single country. Under this view, transferring responsibility, manpower, and resources to central government field offices is not decentralization. Rather, decentralization only occurs when local-level government units are: (1) established by legislation, typically in the form of a charter that gives the unit legal personality, defined as established by law with the right to sue and be sued; (2) located within clearly demarcated jurisdictional boundaries within which there is a sense of community, consciousness, and solidarity; (3) governed by locally elected officials and representatives; (4) authorized to make and enforce local ordinances related to devolved public sector tasks; (5) authorized to collect legally earmarked taxes and revenues; and (6) empowered to manage their budget, expenditure, and accounting systems, and to hire their own employees, including those responsible for security.” (p. 18)

2.2.6 Objectives Based Forms

“... The sixth approach ... classifies *forms* of decentralization on the basis of objectives: political, spatial, market, and administrative. Then it gives specific attention to three *types of* administrative decentralization: deconcentration, devolution, and delegation. ‘Political’ decentralization typically identifies the transfer of decision making power to citizens or their elected representatives. ‘Spatial’ decentralization is a term used by regional planners involved in formulating policies and programs that aim at reducing excessive urban concentration in a few large cities by promoting regional growth poles that have potential to become centers of manufacturing and agricultural marketing. ‘Market’ decentralization focuses on creating conditions that allow goods and services to be produced and provided by market mechanisms sensitive to the revealed preferences of individuals. This form of decentralization has become more prevalent due to recent trends toward economic liberalization, privatization, and the demise of command economies. Under it, public goods and services are produced and provided by small and large firms, community groups, cooperatives, private voluntary associations, and NGOs. Finally, ‘administrative’ decentralization is focused on the hierarchical and functional distribution of powers ... between central and non-central governmental units.” (p. 18)

2.2.7 Summary Assessment by Cohen and Peterson

Cohen and Peterson (pp. 18-19) provide a brief summary assessment of these six forms of decentralization. The state: “It is important to note that forms affect each other. Decisions made about spatial decentralization will affect the efforts of governments to pursue a particular type of administrative decentralization. Or, for example, a decision by a government to pursue a particular type of administrative decentralization will affect patterns of political forms of decentralization. That is, in the real world, as opposed to the analytical world, it is difficult to fully separate these four forms of decentralization. The analytical forms are useful in that they define a perspective but they are difficult to separate out because each affects the others in subtle ways that vary greatly from among task environments.

“... The failure to distinguish forms is one of the major reasons for the confusion in the literature on decentralization. Clarity is difficult to achieve, even when efforts are made to distinguish forms. Several examples might help clarify the complexities found in relationships among forms. First, effective spatial decentralization generally leads to a demand for administrative decentralization. As urban and rural areas grow and diversify it becomes more difficult and costly for central government to control, produce, and provide collective goods and services throughout a country. This is a very common problem, since most regions in late

developing countries have populations and demands equal to those that characterized their entire country at independence. Second, market decentralization tends to emerge in situations where central delivery is difficult to achieve and sustain, and private firms or non-public organizations can deliver them better. Third, while administrative decentralization is not the same as political decentralization, it can, under enlightened central leadership, lead to democratization and greater political participation. But for this to happen, central leadership must be committed to tolerating the emergence of civil society, devolving decision-making authority, and promoting the democratic election of local leaders.”

2.3 FORMS OF DECENTRALIZATION (FROM UNDP)

Several recent publications provide definitions and interpretations of decentralization, and most of these are linked to the notions of decentralized governance and local governance. The forms of decentralization defined in several recent UNDP publications draw from the recent Cohen and Peterson publication, and may be seen as simply an elaboration of administrative decentralization (focusing primarily on the public sector). In one recent UNDP publication, the comment is made on forms of what might be seen as primarily ‘administrative’ decentralization (also discussed in a following sub-section): “The effects of decentralization on good governance depend to a large extent on the form and nature of the decentralization involved in the particular country. The type of unit with which authority is shared or to which it is transferred in the decentralization process is critical for understanding the implications for good governance. There are a variety of different arrangements which are often included in discussions on decentralization: ...”⁸

2.3.1 Devolution

“ . . . The first type is autonomous lower-level units, such as provincial, district, local authorities that are legally constituted as separate governance bodies. The transfer of authorities to such units is often referred to as devolution and is the most common understanding of genuine decentralization. Through devolution, the central government relinquishes certain functions or creates new units of government that are outside its direct control. Federal states are by definition devolved, though the extent of legally defined and shared powers devolved by the federal government to lower level governmental units can be quite limited. Devolution in its purest form has certain fundamental characteristics. First, local units of government are autonomous, independent and clearly perceived as separate levels of government over which central authorities exercise little or no direct control. Second, the local governments have clear and legally recognized geographical boundaries within which they exercise authority and perform public functions. Third, local governments have corporate status and the power to secure resources to perform their functions. Fourth, devolution implies the need to "develop local governments as institutions" in the sense that they are perceived by local citizens as organizations providing services that satisfy their needs and as governmental units over which they have some influence. Finally, devolution is an arrangement in which there are reciprocal, mutually beneficial, and coordinate relationships between central and local governments.”

⁸ The following definitions in this sub-section are extracted from: UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centered Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, pp. 5-6

2.3.2 Delegation

“ . . . The second type is semi-autonomous lower-level units, such as urban or regional development corporations to whom aspects of governance are delegated through legislation or under contract. This is a fairly common variant of decentralization that stops short of devolution, but involves significant delegation of authorities and responsibilities. Delegation refers to the transfer of government decision-making and administrative authority and/or responsibility for carefully spelled out tasks to institutions and organizations that are either under government indirect control or semi-independent. Most typically, delegation is by the central government to semi-autonomous organizations not wholly controlled by the government but legally accountable to it, such as state owned enterprises and urban or regional development corporations.”

2.3.3 Deconcentration

“ . . . The third type is sub-ordinate lower-level units or sub-units, such as regional, district or local offices of the central administration or service delivery organization. These units usually have delegated authority in policy, financial and administrative matters without any significant independent local inputs. This type of arrangement is most often referred to as deconcentration and involves very limited transfer of authority. It involves the transfer of authority for specific decision-making, financial and management functions by administrative means to different levels under the same jurisdictional authority of the central government. This is the least extensive type of administrative decentralization and the most common found in developing countries. General deconcentration occurs to the extent that a variety of tasks are deconcentrated to a horizontally integrated administrative system. Functional deconcentration occurs to the extent that specific tasks are deconcentrated to the field units of a particular ministry or agency.

Type of Unit to which Authority is transferred	Aspect of Governance transferred or shared			Generic name
	Political (policy or decision making)	Economic or financial resource management	Administration and service delivery	
Autonomous lower-level units	Devolution	Devolution	Devolution	Devolution
Semi-autonomous lower-level units	Delegation	Delegation	Delegation	Delegation
Sub-ordinate lower-level units or sub-units	Directing	Allocating	Tasking	Deconcentration
External (non-governmental) units at any level	Deregulation	Privatization	Contracting	Divestment

From: UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centered Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, Annex #, Box 2, p. 33

2.3.4 Divestment/Privatization

“ . . . The fourth type refers to units external to the formal governmental structure (non-governmental or private), such as NGOs, corporations and companies. While sometimes included in discussions of decentralization, the nature of these transfers is not level-specific, i.e., transfers could occur at the same level, which is often the central one. These phenomena are best not treated as forms of decentralization, but of divestment. Divestment occurs when planning and administrative responsibility or other public functions are transferred from government to voluntary, private, or non-government institutions. In some cases, governments may transfer to "parallel organizations" such as national industrial and trade associations, professional or ecclesiastical organizations, political parties, or cooperatives - the right to license, regulate or supervise their members in performing functions that were previously controlled by the government. In other cases, governments may shift responsibility for producing goods or supplying services to private organizations, a process often called privatization.”

2.3.5 Some Observations from UNCDF

“ . . . Devolution: Local Government. This represents a stereotype (or 'ideal type') to which, in reality, no local government will ever fully correspond, even in Western liberal democracies, but which provides a useful framework for assessment and for comparison over time and between countries. Briefly, these features are: a democratically representative and autonomous political authority; a clear mandate to provide a range of significant services; body corporate status, with ability to sue, be sued, enter into contractual arrangements, hold a bank account and employ staff; control of or access to local executive and technical staff; access to adequate funds, control of its own budget and accounts and the ability to raise its own revenue; the ability to make and enforce local bylaws. These features are seen as key to a achieving efficient and locally accountable service provision and the related benefits of democratic governance.

“ . . . Deconcentration: local administrative committees. By contrast, an institution as a deconcentrated local administration is generally characterized as follows: an interdepartmental committee comprising line department heads, usually chaired and controlled by a generalist administrator (governor, prefect, district commissioner); a mandate to plan and coordinate the activities of the constituent departments; status as an administrative body, with no powers to sue, be sued, contract, hold a bank account, or employ staff --such functions are undertaken by either the chairperson or the respective line departments; access to development fun but with recurrent budgeting and expenditure undertaken by line departments; no powers to raise revenues or make and enforce local bylaws.”⁹

2.4 OTHER INTERPRETATIONS OF DECENTRALIZATION (UNDP)

2.4.1 Administrative Decentralization

Administrative decentralization is by far the most common and accepted form of decentralization, insofar as development is concerned (Cohen and Peterson, p. 19). The UNDP

⁹ UNCDF, Taking Risks: Background Papers, September, 1999, p. 168

“forms” of decentralization noted above are based on established definitions of administrative decentralization, and the following definition is applied.

“. . . the transfer of responsibility for planning, management, and the raising and allocation of resources 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, area-wide regional or functional authorities, or non-governmental private or voluntary organizations.”¹⁰

“. . . governments in developing countries have attempted to implement a variety of administrative decentralization policies . . . These have ranged from those that are more comprehensive in scope and designed to transfer development planning and management responsibilities to local units of government. Others have been more narrowly conceived, deconcentrating or reallocating administrative tasks among the units of central government. But on an unprecedented scale, central governments are allocating more substantial portions of the national budget to local authorities, more administrative authority, more economic responsibility and more political autonomy.”¹¹

2.4.2 Fiscal or Financial Management Decentralization

“. . . The establishment of effective and transparent financial management is at the core of any effort to reform the public sector. . . . To be genuinely supportive of a decentralization process, the basic characteristics of a system for decentralized financial management should include: (a) transparency of allocation (b) predictability of the amounts available to local institutions and (c) local autonomy of decision making on resource utilization. In contrast with the widespread practice of ad hoc grants driven by politics, the allocation of resources should be based on transparent formulas. Also, unlike the typical unpredictability of most central-to-local transfer mechanisms prevailing in developing countries, the process should provide local institutions with an up-front indication of how much money will be available in the next multi-year planning cycle. This makes local strategic planning possible and provides a financial ceiling that makes such planning a meaningful exercise and an opportunity for local communities to take autonomous decisions on the use of limited resources.”¹²

2.4.3 Political or Democratic Decentralization

“. . . Not only has the over-concentration of business and political power been a problem in holding back worldwide economic development, it has also helped foster corruption and dictatorship. A century ago, the British political commentator Lord Acton noted that power corrupts, absolute power corrupts absolutely. This maxim has been demonstrated all too frequently. Indeed, much of the recent emphasis placed on the strengthening of local governance

¹⁰ Rondinelli, D., and Nellis, J., “Assessing Decentralization Policies: A Case for Cautious Optimism”, Development Policy Review IV, 1 (1986), p. 5

¹¹ UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centered Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, p. 5

¹² United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 48

has been motivated by a desire to break the grip of sometimes quite corrupt national bureaucracies on the development process. Indeed, in many cases, the single most important rationale for the strengthening of systems of local governance is the need to disperse the monopolization of power that is held by many national governments. ... It is critically important to ensure the existence of a system of multiple checks and balances on the exercise of political power. In that respect, the single most important form of checks and balances in any society is the dispersal, or fragmentation, of political power. Without question, the creation of strong regional and local governments is critical to that development.”¹³

“... democratic decentralization, involving the transfer of administrative, fiscal, and political power, is necessary for decentralization to be successful and for sustainability to be a reality. Democratic decentralization is significantly strengthened when mechanisms are created at the local level to facilitate the local level planning process, linking government staff to civil society. Such partnership often necessitates a change in the mind-set of its members as well as resources devoted to strengthening the capacities and skills necessary for effective facilitation of such processes.”¹⁴

“... Decentralization is an integral part of the logic of democratization – the power of a people to determine their own form of government, representation, policies and services. In designing decentralization strategies it is important to ensure adequate processes of accountability, transparency and responsiveness by all societal actors.”¹⁵

2.4.4 Services Delivery Decentralization

“... Community services include many different kinds of activities. Some involve collective goods produced by local government such as water provisions, wastewater disposal and creating and maintaining streets and parks. Other services involve individual benefits, for example education and social welfare. A third group involves infrastructure development and includes mapping and land surveying, constructing public buildings, environment and health protection. Finally, there are those services that involve protecting the citizens legal security and the exercise of public authority and police power.”¹⁶

“... In many countries, certain activities such as social services, education, planning and building permits, environmental health, street cleaning, emergency and rescue services have been traditionally organized via sectorial committees according to law. More recently new approaches have been experimented with. These include geographically decentralized and purchaser-provider models. Increasingly, today one finds all these different principles for the

¹³ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 11

¹⁴ Experiences from India, extracted from UNDP, Draft Report on Global Workshop on UNDP/MIT Decentralized Governance Research Project, Amman, Jordan, June 14 - 16, 1998, p. 3

¹⁵ UNDP, Factors to Consider in Designing Decentralized Governance Policies and Programmes to Achieve Sustainable People-Centred Development, Management Development and Governance Division, February 1998, p. 1

¹⁶ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 26

organization of local government used jointly in new combinations in order to achieve solutions tailored to the needs in each city/authority.”¹⁷

2.4.5 Decentralization of Participatory Mechanisms and Citizen Feed-Back Systems

“ . . . This approach builds upon the growing trend towards quality control of public service production through citizen and customer participation. Above all, it includes systematic and decentralized citizen quality feedback systems, and in some cases explicit service obligations by the administration towards citizens within the framework of a citizens' charter, focused upon issues such as timeliness, accessibility and continuity of services. Moreover, by abandoning administration by rule in favor of results-oriented steering one will create organizational space will be created for autonomous action by units at local level. Such an approach can, however, lead to the centrifugal segmentation of the administrative system unless monitoring is developed as a medium for collective observation, learning and self-steering.”¹⁸

3.0 SOME MAJOR CHARACTERISTICS OF DECENTRALIZATION (UNDP)

3.1 DECENTRALIZATION AS A TREND

“ . . . A large number of developing and transitional countries have embarked on some form of decentralization programmes. This trend is coupled with a growing interest in the role of civil society and the private sector as partners to governments in seeking new ways of service delivery. The practice of decentralization has so far produced cases of both success and failure. In many instances, the slow pace of implementation and organization of decentralization reforms have frustrated the promise of increased efficiency, of more effective popular participation and greater private sector contributions. Innovative approaches and further analysis of concepts and experiences, are therefore necessary to understand fully the potential outcomes of different local government systems in public service delivery and in private sector development.”¹⁹

“ . . . The movement to decentralization and the enhancement of local self-governance capacity is not just seen in the public sector. Indeed, in the private sector, the general development tendency which has most affected the organization of work in recent decades is also decentralization. Management by Results (MbR) as a management philosophy is a natural consequence of the decentralization of an organization, which in turn leads to a clear focus on unit results. Responsibility for results means that some definite objectives are to be achieved within a given financial frame or that payment is made according to actual performance.”²⁰

¹⁷ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 41

¹⁸ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 44

¹⁹ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 7

²⁰ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 6

“ . . . Decentralization of governance and the strengthening of local governing capacity is in part also a function of broader societal trends. These include, for example, the growing distrust of government generally, the spectacular demise of some of the most centralized regimes in the world (especially the Soviet Union) and the emerging separatist demands that seem to routinely pop up in one or another part of the world. The movement toward local accountability and greater control over one's destiny is, however, not solely the result of the negative attitude towards central government. Rather, these developments, as we have already noted, are principally being driven by a strong desire for greater participation of citizens and private sector organizations in governance.”²¹

3.2 DECENTRALIZATION AS A PROCESS

“ . . . In the process of decentralization: that is to say, the redefinition of structures, procedures and practices of governance to be closer to the citizenry the importance of a general sensitization of the public and a heightened awareness of costs and benefits, especially for direct stakeholders, both at the central and local levels, has to be emphasized. The process of decentralization should be understood from such a perspective, instead of being seen in the oversimplistic, and ultimately inaccurate, terms of a movement of power from the central to the local government. The reality is that government capacity is not a simple zero sum game. In fact, experience shows that strengthening local government inevitably produces enhanced capacity at the center as well.”²²

“ . . . decentralization should not be considered as a process, but a way of life and a state of mind based on the principles of freedom, respect and participation. Above all, it is trusting and recognizing that people are capable of managing their affairs. . . . the need to close the gaps and differences between all levels of governance through interaction and sharing . . . decentralization as consisting of interlocking rings of responsibilities from the center to the community. Decentralization should not be imposed, but that people should be exposed to it, thereby honoring their intelligence and respecting their independence.”²³

3.3 DECENTRALIZATION AS A COUNTERPOINT TO GLOBALIZATION

“ . . . Decentralization is a counterpoint to globalization. Globalization often removes decisions from the local and national stage to the global sphere of multi-national or non-national interests. Decentralization on the other hand brings decision-making back to the sub-national and local levels. In designing decentralization strategies it is necessary to view the interrelations of these various dimensions – global, regional, national, sub-national, local. In this regard, the role

²¹ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 12

²² United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 7

²³ Quote from the Prime Minister of Jordan, contained in: UNDP, Draft Report on Global Workshop on UNDP/MIT Decentralized Governance Research Project, Amman, Jordan, June 14 - 16, 1998, P. 1

of the nation-state gains increased importance as a mediating force between the forces of globalization and localization.”²⁴

3.4 DECENTRALIZATION AS A MIX OF FOUR DIMENSIONS

“... Decentralization involves four dimensions – the collective/exterior, the collective/interior, the individual/exterior and the individual/interior. The collective/exterior has to do with the institutional and legal forms and procedures. The collective/interior deals with the societal culture – the set of values and assumptions which are often unspoken or unacknowledged but nevertheless play a powerful role in human relationships. The individual/exterior dimension has to do with the observable behavior of individuals within the various societal institutions, whether government, private sector or civil society. The dimension of the individual/interior deals with the mindset, world view, mental models, emotions and intuitions of individuals within institutions. Effective decentralized governance planning must be based on an analysis of these four dimension .”²⁵

3.5 DECENTRALIZATION AS A HOLISTIC AND SYSTEMS APPROACH

“... The holistic nature of the people-centered approach is based on recognition of the fact that people do not think of their well-being or development in terms of sectors, levels or spheres, or domains, but deal with the whole of their reality. The holistic approach is thus made operational by taking a whole systems perspective, including levels, spheres, sectors and functions and seeing the community level as the entry point at which holistic definitions of development goals are most likely to emerge from the people themselves and where it is most practical to support them. It involves seeing multi-level frameworks and continuous, synergistic processes of interaction and iteration of cycles as critical for achieving wholeness in a decentralized system and for sustaining its development.”²⁶

3.6 COMPREHENSIVE AND LIMITED DECENTRALIZATION

“... Decentralization initiatives can generally be classified into two basic types. The first type have often been unworkably comprehensive, overwhelming technical capacity at both the central and local level, and too heavily threatening bureaucratic and political tolerance at the center. The second type of decentralization effort has focused on very specific, limited (often technical), rigidly defined activities that are not developed as a rational part of a broader decentralization and intergovernmental fiscal reform agenda." An example of this latter type of effort would be a program designed exclusively to reform local government budgeting or accounting procedures. While such reforms are often critical to support broader decentralization goals and may occasionally serve as a catalyst for decentralization, rarely can they take a system

²⁴ UNDP, Factors to Consider in Designing Decentralized Governance Policies and Programmes to Achieve Sustainable People-Centred Development, Management Development and Governance Division, February 1998, p. 1

²⁵ UNDP, Factors to Consider in Designing Decentralized Governance Policies and Programmes to Achieve Sustainable People-Centred Development, Management Development and Governance Division, February 1998, p. 1

²⁶ UNDP, The Global Research Framework Of The Decentralized Governance Programme, New York, May 1997, p. 7

very far on their own. ... Neither type of reform--the highly comprehensive or the highly limited--takes into adequate account the wider scope of institutional bottlenecks discussed above that make institutional change so difficult in developing countries. To make matters worse, many of these initiatives have been placed under the leadership of a single central agency that is perceived as a rival by other agencies whose cooperation is required for successful decentralization.”²⁷

“... there is no simple one-dimensional, quantifiable index of the degree of decentralization in a given country. Similarly, the devolution and deconcentration distinction is too blunt to be helpful -- almost every country exhibits some sort of mix at each level. Attempting to measure degrees of national ‘political commitment’ to decentralization is inherently subjective and misses both the formal institutional setup and the policy differences within government. ... Assessment of the national policy and institutional context should be made in formal and informal terms and should capture the constitutional structure of the state at different levels and political interest or commitment to decentralizing power and control of resources within these structures.”²⁸

3.7 DECENTRALIZATION AND THE LOCAL APPROACH TO PROGRAMMING

“... The second aspect of the *local* approach to programming is that it embodies decentralization of programme responsibilities to local representative government (provincial, district, etc.) and community bodies. There is a two-fold rationale for this:

Support to decentralization. There is now ample evidence that the responsibilities for the provision of basic infrastructure must be delegated to the local level in order to better ensure efficiency and sustainability, i.e.: (i) that what is provided is really what is needed, and (ii) that it is managed and maintained in the long run.

Support to local governance. By delegating these responsibilities it is possible (i) to effect capacity strengthening *in action* by coupling technical assistance to local institutions with real resource management responsibilities, and thus (ii) to enhance the legitimacy of representative local government bodies and community institutions and the interaction between them.”²⁹

²⁷ UNDP, Beyond Normative Models and Donor Trends: Strategic Design and Implementation of Fiscal Decentralization in Developing Countries, Internal working draft, prepared for the Management Development and Governance Division, by Paul Smoke, International Development and Regional Planning Program, Department of Urban Studies and Planning, Massachusetts Institute of Technology, 10-404, 77 Massachusetts Avenue, Cambridge, MA 02139 USA, April 1999, pp. 14-15

²⁸ UNCDF, Taking Risks: Background Papers, September, 1999, p. 167

²⁹ UNCDF, Poverty Reduction, Participation & Local Governance: The Role for UNCDF, UNCDF Policy Series: Vol. I, August 1995, p. 11

4.0 DECENTRALIZED GOVERNANCE

4.1 SOME DEFINITIONS

“... Decentralizing governance, from the center to regions, districts, local governments/authorities and local communities, can be an effective means of achieving critical objectives of the sustainable human development (SHD) vision - improved access to services and employment, increased people participation in decisions affecting their lives, and enhanced government responsiveness.”³⁰

“... Although experience suggests that decentralization in itself is no guarantee of good governance, many believe that decentralizing governance, from the center to regions, districts, local governments/authorities and local communities is more conducive to good governance. If this is the case, decentralizing governance could be an effective means of achieving critical objectives of the sustainable human development vision - improving access to services, credit, employment, health, and education, eradicating poverty, achieving greater socio-economic equity, especially between men and women and safeguarding the environment.”³¹

“... UNDP uses the term ‘decentralizing governance’ as it firmly believes that decentralization of the public sector, in itself, will not be effective unless support is also provided to strengthen local governance, involving the public, private and civil sectors. And, in turn, the achievement of good "governance at the local level is also not possible without the transfer of responsibilities and capacities through decentralization. The term "decentralized governance" defines the systematic and harmonious interrelationship resulting from the balancing of power and responsibilities between central governments and other levels of government and non-governmental actors, and the capacity of local bodies to carry out their decentralized responsibilities using participatory mechanisms.”³²

“... Today, throughout the world there is a broad-based movement towards greater decentralization. At the same time, however, there is still real debate about whether decentralized governance can be an effective means of achieving the critical objectives of sustainable human development: improved and more equitable public access to services and employment, increased popular participation and enhanced government responsiveness. Consequently, there is an increasingly urgent need to review the structure and processes of local governance in light of the growing recognition that good local governance is a sine qua non for improved national governance.”³³

³⁰ UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centred Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, p. 1

³¹ UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centred Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, p. 4

³² UNDP, Decentralized Governance Monograph: A Global Sampling of Experiences, Management Development and Governance Division, Bureau for Policy Development, April 1998, p. 6

³³ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 9

“ . . . Decentralized government can be an important element in the facilitation of an active and lively civil society. The more government is decentralized and the stronger the local governance capacity, the more opportunities in essence, the more arenas are provided for the emergence of civil society institutions. In that regard, local governments can and have played crucial facilitating roles in the development of vibrant civil societies. Local legislation, government policy and administrative practice can all profoundly impact upon the capacity for civil society to both emerge and play a role in governance. Indeed, it is the existence of local governance, combined with the emergence of local civil society institutions, that truly creates the pluralism that is central to democratic development.”³⁴

4.2 KEY ELEMENTS OF A NATIONAL FRAMEWORK

“ . . . Several aspects of decentralized governance are critically influenced, if not determined, by central frameworks and policies. It is therefore necessary to take account particularly of the following elements of the national framework for decentralization . The *constitutional/statutory basis* defining the systems, the levels, their respective jurisdictions and their complementary roles according to the principle of subsidiarity. The *incorporation* of the institutional forms of governance, with defined constitutional provisions with regard to authorities, structure, composition, representation, elections, procedures, modes of operation, regulations, and so on. Definition of *accountabilities and co-responsibilities* between levels and their publics. Institutional provisions for *transparency*: definition of access to information, reporting responsibilities, the sharing of data and information on a dis-aggregated basis through decentralized, modular information systems. Definition of the sharing of *fiscal authorities and responsibilities* and the creation of *special instruments* to ensure national capacity to address regional inequities and disparities, such as funds or partnership facilities.”³⁵

4.3 UNDP’S DECENTRALIZED GOVERNANCE PROGRAMME

“ . . . the overall objective of the Programme is to contribute to the learning process of UNDP, governments and other donors on how the capacities for good governance of the various actors - public, private and civic - at the appropriate levels - national, provincial, district, municipal, village or community - can be strengthened in the areas of policy formulation, resource management, and service delivery/access in order to achieve poverty eradication and other SHD goals. . . . The strategic aim of the Programme is to create an opportunity for a convergence of efforts resulting in the generation of national, sub-national and local policy environments supportive of decentralized governance. Not all activities can or will be carried out exclusively with internal programme resources. . . . the Programme seeks to establish national and global collaborative implementation strategies.”³⁶

³⁴ United Nations (DDSMS and UNDP), Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance, Gothenburg, Sweden, 23-27 September 1996, ref St/Tcd/Ser.E/46, p. 28

³⁵ UNDP, The Global Research Framework Of The Decentralized Governance Programme, New York, May 1997, p. 11

³⁶ UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centred Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, p. 9-10

“ . . . the Decentralized Governance Programme has been divided into two sub-programmes, one at the global-level and one at the country-level. . . . Global level activities will focus on a process of knowledge development, information sharing, and encouraging the agencies of the UN system and associated donors to move toward a collaborative approach to supporting decentralized governance. Activities are designed to ensure that the lessons and experiences of past and ongoing country level projects, supported by governments, UNDP and other international agencies, are analyzed, documented and disseminated to ensure that ongoing efforts guide the design and implementation of future efforts to promote national policy environments supportive of decentralized governance. The country-level sub-programme will provide support to the design of decentralized governance initiatives, aiming to promote a holistic approach to sustainably improving national policy formulation, resource management and the equitable delivery of public goods and services.”³⁷

“ . . . The immediate objectives of the Decentralized Governance Programme are as follows: *Objective I.* The design of focused and relevant UNDP-supported projects on the basis of national and local needs and priorities; *Objective II.* Increased knowledge, awareness and understanding of the impact of UNDP and other donor support on decentralized governance efforts to support the rapid attainment of SHD at the country level; *Objective III.* Increased global sharing of experiences and access to information on the efficacy of decentralized governance to support rapid attainment of SHD goals; *Objective IV.* An effective flexible methodology for support to strengthening country level efforts to decentralize governance to appropriate levels, available to UNDP and other concerned donors and national and local governments and NGOs.”³⁸

5.0 OTHER VIEWS AND DEFINITIONS OF DECENTRALIZATION

5.1 FROM THE WORLD BANK

“ . . . Decentralization has quietly become a fashion of our time. It is being considered or attempted in an astonishing diversity of developing and transitional countries . . . by solvent and insolvent regimes, by democracies (both mature and emergent) and autocracies, by regimes making the transition to democracy and by others seeking to avoid that transition, by regimes with various colonial inheritances and by those with none. It is being attempted where civil society is strong, and where it is weak. It appeals to people of the left, the center and the right, and to groups which disagree with each other on a number of other issues.”³⁹

“ . . . Decentralization entails the transfer of political, fiscal, and administrative powers to subnational units of government. A government has not decentralized unless the country contains ‘autonomous elected subnational governments capable of taking binding decisions in at

³⁷ UNDP, Decentralized Governance Programme: Strengthening Capacity for People-Centred Development, Management Development and Governance Division, Bureau for Development Policy, September 1997, p. 10

³⁸ UNDP, Decentralized Governance Country Thematic Assessment Framework and Guidelines, Management Development and Governance Division, Bureau for Policy Development, April 1998, p. 3

³⁹ Manor, J., The Political Economy of Democratic Decentralization, The World Bank, Directions in Development, 1999, p. 1

least some policy areas.' Decentralization may involve bringing such governments into existence. Or it may consist of expanding the resources and responsibilities of existing subnational governments. The definition encompasses many variations. . . . Central governments can devolve their powers in other ways. *Deconcentration* increases the autonomy of staff in regional offices, while *privatization* moves responsibility out of the public sector altogether. The policy implications differ. Deconcentration preserves the hierarchical relationship between field staff and the central government. Privatization eliminates it altogether, introducing the profit motive instead. Decentralization shifts the focus of accountability from the central government to constituents, usually through local elections.”⁴⁰

5.1.1 Fiscal, Political and Administrative Decentralization

“ . . . *Fiscal decentralization*—who sets and collects what taxes, who makes what expenditures, and how any "vertical imbalance" is rectified—has been especially prominent in recent discussions in many countries, but as just indicated many of the more fundamental questions relate to political and administrative decentralization. *Political decentralization* refers at one level to the extent to which political institutions map the multiplicity of citizen interests onto policy decisions (Inman and Rubinfeld, 1997). *Administrative decentralization* is concerned with how political institutions, once determined, turn policy decisions into allocative (and distributive) outcomes through both fiscal and regulatory actions. The political decision to devolve powers from central government, for example, can only get translated into actual powers being shifted if subnational governments have the fiscal, political, and administrative capacity to manage this responsibility.”⁴¹

Following from the above definition, Manor in his recent book defines decentralization in the context of political systems and the state sector. He classifies decentralization into three major types: Deconcentration or administrative decentralization, Fiscal decentralization, and Devolution or democratic decentralization, and collectively refers to these as democratic decentralization, quoting from his book are:

“ . . . deconcentration, refers to the dispersal of agents of higher levels of government into lower level arenas. . . . When deconcentration occurs in isolation, or when it occurs together with fiscal decentralization but *without simultaneous democratization* – that is, when agents of higher levels of government move into lower level arenas but remain accountable only to persons higher up in the system-it enables central authority to penetrate more effectively into those arenas without increasing the influence of organized interests at those levels. The central government is not giving up any authority. It is simply relocating its officers at different levels or points in the national territory. In such circumstances, it tends in practice to constitute centralization, since it enhances the leverage of those at the apex of the system. This is especially true in less developed countries . . .

“ . . .the term decentralization sometimes refers to downward fiscal transfers, by which higher levels in a system cede influence over budgets and financial decisions to lower levels. This authority may pass to deconcentrated bureaucrats who are accountable only to superiors at

⁴⁰ World Bank, *Entering the 21st Century – World Development Report 1999/2000*, World Bank, 1999 (Oxford University Press), p. 108

⁴¹ Litvack, J., Ahmad, J., Bird, R., *Rethinking Decentralization - A Discussion Paper*, World Bank, 1999, para. 18

higher levels, or to unelected appointees selected from higher up. . . .when such fiscal transfers are linked to mechanisms which give people at lower levels some voice, no one would describe it as anything other than decentralization.

“ . . .Finally, there is devolution -- the transfer of resources and power (and often, tasks) to lower level authorities which are largely or wholly independent of higher levels of government, and which are democratic in some way and to some degree.”⁴²

5.1.2 Asymmetric Decentralization

“ . . . Economic, demographic, and social diversity, measured by characteristics such as size, wealth, and the degree of local integration or "community", is often reflected in a multitude of government and delivery structures even within a single country. . . . Given this . . . diversity, both in the nature of the political jurisdiction and the characteristics of households, experience has clearly demonstrated that although there are some generally valid principles with respect to decentralization . . . on the whole "one size fits all" is definitely not true with respect to decentralization. Different instruments may have very different effects in different circumstances, and very different approaches may be needed to achieve similar (or acceptable) results. For example, privatization of water services in an urban setting may achieve efficiency and equity objectives in a dense, urban setting but may fail to reach similar goals in a sparsely populated rural region. Private sector delivery and financing of water services may then have to be complemented with public sector and community delivery systems for specific areas. *To accommodate the need for such diverse approaches, asymmetrical central policies—treating different units differently—may be required to produce similar responses.*” (Litvack et al, para. 78).

“ . . . An important element of such an approach is the principle of asymmetrical decentralization. For example, in many countries it may be feasible to decentralize political, economic and administrative responsibilities to the larger urban areas. Similarly, at the regional level, fiscal and administrative capacity may make it easier to decentralize responsibilities only to *some* provinces or states. In other cases, it may be feasible to decentralize responsibilities directly from central government to the private sector rather than going through local governments.” (Litvack et al, para. 79).

5.1.3 Inadvertent Decentralization

“ . . . Decentralization is almost always the result of intentional decisions by policymakers. But there is such a thing as inadvertent decentralization. This is not the same as decentralization by default, mentioned above. It occurs when other policy innovations produce an unintended decentralization of power and resources as a by-product. Two main examples come to mind—a small number, but they have occurred in large, important countries. The first is Russia, where authorities at lower levels have acquired greater powers than the central authorities intended as a result of oversights and unexpected developments . . . The second is

⁴² Manor, J., *The Political Economy of Democratic Decentralization*, The World Bank, Directions in Development, 1999, pp. 5-6

China, where provincial governments have obtained more resources (and power over them) than central leaders wished.”⁴³

5.1.4 Decentralization and Incentives for Good Governance

“. . . Decentralization is leading to the dispersion of political, fiscal, and administrative responsibilities across different tiers of government and between the public and the private sector. In terms of delivery of services, for example, responsibility may lie with all or some tiers of government, with community groups, or the private sector. *The challenge is to design the decentralization process so that it creates incentives that will hold each entity accountable for its responsibilities as well as make explicit the institutional relations between each entity.* For example, a local government given the responsibility for delivering water needs to be held accountable to the local people for this task. For other services with national externalities (e.g. the public health programs mentioned above) local governments should be held accountable to the central government. If it fails to provide the service, the political leadership must face some consequences. At the same time, the relationship between the local and central government must be made clear. To avoid moral hazard problems, the local government must not have the luxury of passing on the buck to another tier of the public sector at least not without facing the appropriate cost for such actions. How can decentralization provide such incentives?”⁴⁴

“. . . First, in democratic settings political decentralization and elections provide direct *political accountability*. More broadly, as Breton (1996) convincingly demonstrates, in all functioning political structures there are a variety of means by which indirect political accountability is attained. *Since many developing countries have weak representative decision making processes and since local elites are often strongly entrenched, participation and accountability can be enhanced through explicit promotion of transparent budgeting processes.* Experience in Mexico and particularly Brazil has demonstrated that participatory budgeting can serve as a critical link between communities and government. More broadly, stressing the importance of community participation in local decision making should be an important component of our dialogue on decentralization.

“. . . Second, by diffusing responsibilities across different entities, including directly to communities and the private sector, decentralization in principle provides a basis for *comparison and competition* (even if indirect). *In developing countries, where inter-jurisdictional mobility may be constrained, competition among service providers within a particular jurisdiction is particularly important for creating choice among residents.* (Decentralization and private sector development have a interdependent relationship whereby the former enables the latter, and the latter strengthens the former.)

“. . . Third, in distributing fiscal instruments to all levels of government, with the right to set rates, the process of decentralization creates the incentives for *fiscal accountability*. Being forced to tax one's constituency either to deliver additional services or pay for policy mistakes is an important element of restraint on political decision-making. However, in developing countries, where people may not be able to easily move to the jurisdiction where the tax and service bundle matches their preferences or vote the incumbent decision maker out of power,

⁴³ Manor, J., *The Political Economy of Democratic Decentralization*, The World Bank, Directions in Development, 1999, pp. 7-8

⁴⁴ These paragraphs are quoted from Litvack et al, paras. 85-89

maximizing accountability means selecting the tax instruments which match closely taxes and services. *In this respect, user charges are particularly important for accountability by creating a closer link between the delivery agent and the client.*

“ . . . Finally, access to well functioning markets by governments and households may also provide an added element of checks and balances on politicians and administrators. For example, decentralizing borrowing powers offers a mechanism for using capital markets to provide *accountability through markets* through signals on the performance of governments and private sector firms. Well functioning land markets make "voting with one's feet" a credible threat as policy decisions get capitalized in land values. In both cases, information plays a critical role for ensuring capital and land markets function efficiently. *Improving the regulatory framework to improve the functioning of markets is essential for establishing the self-correcting methods of accountability which will lead to successful and sustainable decentralized decision making.*

5.1.5 Centralization and the Roots of Centralism (Latin America)

“ . . . Historians also see cultural and economic roots of centralism in (a) the acceptance of authority fostered by the particular form of Catholicism practiced in the region (authoritarian and allied with conservative groups), (b) the deep inequality in social relations, (c) the high concentration of land ownership (which in turn fixed the economic boundaries between owner and peon), (d) the low prevailing levels of education, and (e) the marginalization of indigenous people from national politics. . . . Centralism was also a reaction to the civil wars that occurred throughout Spanish-speaking Latin America in the nineteenth century. After Latin Americans gained their independence from Spain, they established fledgling "democracies" on the U.S. model, but these failed quickly. Political competition degenerated into open civil war between competing caudillos (war lords) in most of the countries of the region. Peace was achieved only through the victory of centralizing dictators (Reyes in Colombia, Gomez in Venezuela, Porfirio Diaz in Mexico). In this respect, centralization was a key condition for consolidating the nation-state. “⁴⁵

5.1.6 Decentralization and Context

“ . . . Decentralization often takes place amid political and turmoil. The euphoria at the fall of a military regime; the economic crisis that precipitates a regime's collapse; the jockeying for power by newly emergent interest groups -- all these conditions create an environment in which a careful, rational, and orderly process of decentralization is highly unlikely. Even where decentralization happens in a less dramatic context, questions of strategy and still arise. Experimenting, testing, adjusting, and replicating are emerging as the prevailing methods of decentralization in the region. . . . there is clearly no blueprint for decentralization. Much depends on the initial conditions in the country and the particular political interests that support or oppose decentralization.”⁴⁶

⁴⁵ The World Bank , *Beyond the Center: Decentralizing the State*, World Bank Latin American and Caribbean Studies, Viewpoints (by Shahid Javed Burki, Guillermo E. Perry and William R. Dillinger), Washington, D.C., 1999 p. 9

⁴⁶ The World Bank , *Beyond the Center: Decentralizing the State*, World Bank Latin American and Caribbean Studies, Viewpoints (by Shahid Javed Burki, Guillermo E. Perry and William R. Dillinger), Washington, D.C., 1999, p. 33

5.1.7 Example of Sectoral Decentralization (Roads)

“ . . . Decentralization in the road sector entails the assignment of responsibility for specific roads to subnational levels of government. Full responsibility in the road sector involves a combination of road functions, management tasks, and financing mechanisms that are closely interrelated to ensure integrity of the road network. The first step toward understanding decentralization in the road sector is to clearly define what it is that is being decentralized. This requires the separation, or "unbundling," of the different building blocks that comprise a road management system and which could be subject to decentralization. . . . our conceptual framework for the analysis of road sector decentralization is based on the separate treatment of three building blocks of effective road management: road functions, management tasks, and financing mechanisms.”⁴⁷

5.2 FROM OTHER SOURCES

5.2.1 Note on Decentralization and Centralization

“ . . . Decentralization occurs when government actors possessing authorities are willing to grant discretion, delegate authorities, or share responsibilities with other actors, inside or outside the government and its public service, in order to accomplish certain tasks. Those who advocate decentralization see a "centralized" system where power is situated at the center, usually controlled by a few. In other words, individuals, organizations, and communities *not* at the center do not have authorities, discretion, or exercise control over their own affairs. They are either recipients of policies and programs from the center, or merely instruments for carrying out the center's plans and directives. In this view, the center is incapable of monitoring and comprehending the diverse reality beyond its immediate confines and, as a result, imposes counterproductive and demeaning rules and controls, and sometimes causes decision-making gridlock. The center loses sight of what and who is to be served, becoming more interested in the means than the ends, because the means are more familiar. The desire to remedy these problems constitutes the case for administrative and political decentralization, often touted as an alternative, promising set of governance arrangements more conducive to determining local needs, encouraging innovation and responsiveness to citizens, and furthering autonomy and democracy.”⁴⁸

⁴⁷ The World Bank, Beyond the Center: Decentralizing the State, World Bank Latin American and Caribbean Studies, Viewpoints (by Shahid Javed Burki, Guillermo E. Perry and William R. Dillinger), Washington, D.C., 1999, p. 89

⁴⁸ Institute of Public Administration of Canada, Decentralization and Power-Sharing: Impact on Public Sector Management, 24th National Seminar, 1999, p. 418

6.0 DECENTRALIZATION AND ALTERNATIVE SERVICES DELIVERY

6.1 SOME DEFINITIONS

Alternative Services Delivery (ASD) is a valuable mechanism used by many governments to transfer programs and services to the private sector for the continued delivery of benefits. ASD is seen as a major form of decentralization, and is gaining greater universal acceptance as a mode of delivering services to the public. Many studies show that the non-government and private sector can deliver some programs and services at a lower cost than a government and at the same time, maintain or improve the quality of the service being delivered. The non-government sectors can do this and earn a profit as they are not subjected to many of the program delivery overheads that are characteristic of government service delivery. It should be recognized at the outset that there are numerous forms, and they are adapted in a multitude of ways to meet specific decentralization and ASD objectives at a national and local level. The following sub-sections present some definitions and adaptations of ASD.

A simple definition could state that ASD is everything that falls between pure privatization and the full delivery of programs and services by the government. The Canadian Council for Public-Private Partnerships uses the following definition: "Public-private partnerships or Alternative Service Delivery refer to the range of techniques used by governments to involve the private sector in the financing and delivery of public services. Public-Private Partnerships include, among other techniques, contracting out services, franchises and concession arrangements, build-operate-transfer arrangements, joint ventures, innovative re-financing of assets, and the selling of assets."

" . . . Decentralization of service delivery - moving resources and responsibilities to lower levels of government - is another potentially powerful means of introducing internal competitive pressure, particularly for the provision of public goods with inter-jurisdictional spill-overs or economies of scale. Local governments get the flexibility to match supply to local preferences or demands, while local accountability and inter-jurisdictional competition in supply provide potential restraints. The rationale for decentralization is that power over the production and delivery of goods and services should be handed over to the lowest unit capable of dealing with the associated costs and benefits. In many countries this will involve scaling back the power of central government. Depending on the institutional environment, decentralization can improve state capability by freeing it to focus on its core functions; it can also, however, undermine that capability."⁴⁹

" . . . Alternative Service Delivery refers to . . . rethinking the role of government in direct service delivery and looking at other options for better and cheaper ways of delivering programs and services. This encompasses a wide range of activities, arrangements and funding options involving the broader public sector, the private sector and not-for-profit organizations. The primary goal of ASD is to improve services to clients. When we implement an alternative method of delivery, it is because we have determined that the alternative will have pay-offs in terms of service and client/customer satisfaction. In addition to improving service ASD can also provide organizations with other benefits such as cost savings, improved access to specialized expertise and capital, etc. . Although ASD may often appear at face value to be fuelled by fiscal

⁴⁹ Kaul, Mohan, *Introducing New Approaches: Improved Public Service delivery*, Commonwealth Secretariat, Managing the Public Service Strategies for improvement Series, No. 5, 1998, p. 29

constraint, ASD's principles of sharing responsibilities and service delivery functions with other sectors bring many benefits, creating synergies by drawing on a diversity of expertise.”⁵⁰

6.2 COMMON ALTERNATIVE SERVICE DELIVERY OPTIONS

In their best-selling book, "Reinventing Government", Osborne and Gaebler identified 36 different types of ASD approaches used in America. This list includes the most popular and successful options. Some practitioners refer to ASD options as different forms of privatization. Others like to distinguish between full privatization and the government delivery of all programs and services.

<u>Delivery Mode</u>	<u>Description</u>	<u>Examples</u>
Full privatization	The complete transfer of the delivery of a public good or service to the private sector. The government has no regulatory function, no accountability, no responsibility, no budget.	Sale of public assets such as railroad systems, airplanes, pipelines
Government	Total delivery by government including legislation, regulation, staff resources, financial resources, accountability, responsibility	Health care programs, subsidies to low income families

Generally, practitioners and literature attempt to identify and name the various approaches that can be used to form a partnership. The objectives for which the partnership is formed will determine the best ASD approach.

<u>Delivery Mode</u>	<u>Alternative Service Delivery Options</u>	<u>Examples</u>
Public-private partnerships	A relationship formed when a government and the private sector agree to work cooperatively toward shared or compatible objectives. The partnership is based on a formal agreement specifying its purpose and nature, and the terms and conditions governing it, such as financing, staffing and reporting.	New highways, bridges, water systems, recreational facilities
Contracting out	The transfer from government ownership and delivery to government purchase of the good or service from the private sector.	Data processing, information systems, health care administration
Contracting for services	Direct purchase of goods and services by the government from the private sector. This particular good or service was never delivered by government. Instead it was purchased.	Food, laundry, janitorial services

⁵⁰ Ontario Public Service, Alternative Service Delivery in the Ontario Public Sector, Government of Ontario, 1999, p. 3

Franchising	A right or privilege a government gives to an individual, firm or corporation to conduct a business or sell a product or service in accordance with prescribed terms and conditions set out by the government.	Postal services
Licensing	A government body grants a license to an individual, firm or corporation to provide the public a good or service for which there is a demand.	Information dissemination
Government owned and contractor-operated (GOCO)	A contractual arrangement that shifts responsibility from government to the private sector but not the ownership. It is sometimes used to increase use of a government facility or to commercialize technology.	Some water systems, laboratories, technical centers
Not-for-profit organization	A contractual arrangement where a not-for-profit body assumes responsibility for managing a public-sector enterprise, program, service or function on a commercial basis. The "profits" are usually returned to the enterprise for its development, but terms and conditions may require some of the earned revenues to be returned to the government.	Some airport authorities, ambulance services
For profit commercial enterprise	Defined as private sector ownership and management on a commercial basis. Most enterprises are subject to government regulations, such as those protecting health, safety and the quality of the environment. They may also be subject to industry or company-specific regulation, especially in the case of enterprises that are monopolies.	Airlines, railway projects, toll roads, airport terminals
Special operating agency (SOA)	An operational unit of a government department that has been designated as an SOA. It operates within the departmental legislative framework and budget policies, and is accountable to a Minister and a deputy head. A framework document and business plan establish accountability. These agencies promote a more businesslike approach within the departmental context. They have tailored authorities and flexibility delegated from the department and the government.	Passport operations, government communications and publishing, post-education facilities

7.0 PRELIMINARY ASSESSMENT

The English language definition of word ‘decentralize’ is straightforward enough: *“Do away with centralization of; confer local government on; distribute (administrative powers etc) among local centers ...”* (The Concise Oxford Dictionary). However, as a management term and term used in public sector management and increasingly governance, ‘decentralization’ appears to have descended into some sloppiness and inconsistency insofar as its definition goes. This appears to be due to the many applications of the term to meet varying objectives in the domains of management, public administration and now governance.

To give some meaning to the term, qualitative definitions of ‘decentralization’, have emerged -- such as administrative decentralization or democratic decentralization -- and these are likely to expand as the understanding and application of decentralization expands. From a survey of the literature, one might conclude that the term ‘decentralization’ does not readily lend itself to universally accepted definition or meaning (other than, perhaps, the dictionary definition): it must be defined in context or as pertaining to its particular application, and this is what apparently has evolved in practice and in the literature.

The preceding sections of this short paper present a far from comprehensive sampling of definitions of ‘decentralization’ as a term, a concept, a process, a theory, a methodology, a policy, a trend, and so on. However, even as a sampling, probably the bulk of existing interpretations and adaptations are covered. Definitions from other donor and academic sources may elaborate, or provide variations, but the theme would likely stay pretty much the same.

It would be useful to develop or have at hand some sort of framework that could assist in defining the concept in terms of its application. The table on the following page might be a start in setting such a framework.

In terms of some opportunities for expanding the definition and application of the concept, it is noted that the literature and practice in fact pay little attention to the private sector or to civil society. For example, most developed economies look increasingly to the private sector as the source and means of ensuring that citizens needs and wants are met (e.g. sustainable livelihoods, economic well-being, freedoms, health etc.). Consequently, public sector activity might be more devoted to such aspects as de-regulation, fostering competitive practices, national and international trade, and ensuring an overall and vital enabling market economy, and so on. There may be many other initiatives outside of the public sector which focus directly at private sector development in selected sectors, or generally.

As the UNDP and other donors expand their support to decentralization in the context of ‘governance’, there must be a corresponding interest in addressing the needs of civil society and the private sector, and the inter-relationships among these major sectors of society. The emergent literature and knowledge on decentralized governance appears still to hold to some orthodox practices of focussing attention primarily in the state or public sector, and this may lead to problems.

Another potential opportunity is to focus not so much on ‘decentralization’ or ‘decentralized governance’ (which assumes that something is being taken away from the center and pushed out to more local and/or lower levels of government, or from the public sector to civil society and the private sector), but rather on ‘local governance’. Local governance (subsidiarity being the underpinning principle) would implicitly and explicitly address issues of

relative distribution of powers, balancing of functions, services, activities and such between the center and local levels, and/or between the public sector and civil society/private sectors. Furthermore, there may be instances in national social, political and economic development where such development logically and traditionally takes place at the local levels and/or non-public sector levels, since there may not exist any legacy or present capacities at the central level. New services, functions and activities may be developed or evolve independently and strictly at the local level, with no prior history (or need) for such services or activities to develop at the central or national level (so, the issue is not of 'decentralization', but rather simply local development/governance). This raises the point that governance should be seen in a systems wide context, of systems operating within systems – and this is the UNDP definition. However, as noted, the practice tends to concentrate perhaps unduly at the public sector level.

A Framework for Defining the Application of the Concept 'Decentralization'

	<i>Description</i>	<i>Elaboration</i>
Who	Describes who would be responsible for the decentralization and who would be impacted by it (the 'decentralizers and decentralizees'.	In broader definitions, would cover the categorization and breakdown of s-called 'stake-holders', knowing in advance that different groups, organizations or segments of society will have differing relationships to the decentralization initiative. There may be different layers of accountability, as well as a specific governance structure.
What	Describes what is to be decentralized. This could be an organizational entity, a function, a process, a service to the public.	Some of the definitions in the preceding parts of this paper identify higher level 'forms' of decentralization, such as administrative or fiscal or political, and these do broadly define the 'what'. But much more specificity would need to be required. Typically, there is overlap across the major forms.
When	Describes the time that decentralization is planned, is to begin implementation, and how long it would take.	It is important here to note that time is an important variable. Timeframes for decentralization are long, extending to a generation. Decentralization processes are process of major change. Time periods may be sub-divided, inter-dependencies noted, milestones established and so on. These may be linked to other time-sensitive initiatives or events
Where	Describes the geographic or spatial dimensions of decentralization	Decentralization can be hierarchical, but still in the same geographic area (e.g. decentralizing from a central ministry to line ministries), or they can be spatial in terms of decentralization to local and lower levels of government.
Why	Describes the 'big reason' to decentralize.	There are all sorts of internal and external factors compelling a government, or society, to decentralize. The 'why' addresses purpose or objective, outcome, impact, result.
How	Describes the mechanical, technical and methodological means of decentralization.	Many of the different forms of decentralization (e.g. ASD, devolution, etc.) really define the means by which decentralization is to be implemented.

A Closing Thought - A Summary of the Overall Challenge

“ . . . Many of the recent decentralization and local government reform initiatives in developing countries have been externally driven; based on western conceptual frameworks that may be inappropriate or incorrectly applied; inattentive to the complex institutional realities that logically govern starting point for decentralization and the extent to which and the pace at which decentralization can occur in a particular country- far too comprehensive or far too slow in scope, often focusing on the wrong factors and failing to balance supply and demand side concerns; and funded and designed by uncoordinated and often competing donors with few clear incentives to encourage capacity building. Although this situation may seem overwhelming, particularly when combined with the common political reluctance to decentralize in many parts of the developing world., a number of countries have been making attempts in recent years to reduce obstacles and to bring about some degree of genuine decentralization.” ⁵¹

⁵¹ UNDP, Beyond Normative Models and Donor Trends: Strategic Design and Implementation of Fiscal Decentralization in Developing Countries, Internal working draft, prepared for the Management Development and Governance Division, by Paul Smoke, International Development and Regional Planning Program, Department of Urban Studies and Planning, Massachusetts Institute of Technology, 10-404, 77 Massachusetts Avenue, Cambridge, MA 02139 USA, April 1999, PP. 18-19

ANNEX 1: SELECTED SOURCES

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ANNEX 2: THEMATIC FOCUS AREAS - DECENTRALIZED GOVERNANCE

Extracted from: UNDP, Decentralized Governance Monograph: A Global Sampling of Experiences, Management Development and Governance Division, Bureau for Policy Development, April 1998, pp. 15-97

- Local Capacity Building
- Political and legal Reform
- District Focused Decentralization
- Political and Popular Participation
- Local Institutional Development and Local involvement
- Fiscal Decentralization
- Inter-Governmental Relations (In-Country Level)
- Local Economic Development
- Fiscal, Administrative and Civil Service reform
- Local Partnership Building
- Participatory Decision Making
- Legal and Administrative Reform
- Improved Service Delivery
- Local NGO/CBO Strengthening
- Social Sector Planning at the Local Level
- Local Participation
- Decentralized Health Services
- Civil Society Mobilization
- Natural Resources management
- Popular Participation
- Rural Development Capacity Building
- Gender Equity
- Food Security
- Privatization
- Decentralized Planning, Financing and Managing information
- Resource Mobilization
- Poverty reduction
- Promoting Participation
- Participatory Decision-Making
- Constitutional reform
- Community Participation
- Reforming the National Planning System
- Expanding National decentralization
- Financial management
- Private Sector Development
- Decentralization of Child Survival Programs management
- Municipal Strengthening
- Donor Coordination
- Local Economic development

ANNEX 3: DEVELOPING DECENTRALIZATION PRINCIPLES

Extracted from: UNDP, Beyond Normative Models and Donor Trends: Strategic Design and Implementation of Fiscal Decentralization in Developing Countries, Internal working draft, prepared for the Management Development and Governance Division, by Paul Smoke, April 1999, PP. 40-44

“... The underlying theme . . . is that decentralization and local government reform programs in developing countries have not met their potential. These programs have, often under donor pressure or influence, have tended to focus on desired outcomes defined by normative models of the public sector, rather than on the context-specific processes by which feasible and sustainable decentralized fiscal systems could be defined and implemented over time. This preoccupation with end results has tended to result in somewhat formulaic and unrealistic approaches to decentralizing. The situation is farther complicated by the multitude of institutional and political constraints discussed throughout the paper. There is clearly no single model of good decentralization that covers all relevant concerns. In recent years, however, a number of countries around the world have managed to develop mechanisms that help to overcome, even if modestly, some of the formidable constraints on the design and implementation of decentralization and local government reform programs outlined earlier. A number of simple observations and lessons about approaches to decentralization can be drawn from these experiences.

“First, reformers should recognize that decentralization is neither a panacea for public sector ills nor a standardized approach to reform. Offloading functions to local governments in times of central government crisis is far from a guarantee of better performance. Even if decentralization is desirable, appropriate levels and forms will vary across countries and types of services. Efforts to rush into decentralization and local government reforms and to other countries have done without tailoring reforms to the particular country in question more counterproductive than positive.

“Second, a solid enabling environment can be an important starting point for an effective centralization program. A well-developed policy framework- that articulates a clear vision for decentralization, however, is clearly not enough to ensure that a decentralization program will progress smoothly in practice and meets its intended goals.

“Third, in centralized countries where there is no clear vision of decentralization and responsibility for local development is fragmented across central agencies, the reform focus should be on the decentralization process rather than specific institutional outputs. The conventional approach to decentralization implicitly assumes that good performance is associated with the latter. In fact, getting a consensus from key institutional actors on how to define reforms in a particular situation may be more critical, at least initially, than firmly defining the specific form the new system takes. Before any approach is adopted and before outside experts bearing substantial funds are able to get the upper hand, central governments contemplating decentralization reforms should bring together all key agencies and groups in a participatory but well defined process to ensure greater consensus on how to proceed. Consensus will probably require that the decentralization effort be designed with clear, relatively immediate benefits for all parties concerned.

“Fourth, decentralization initiatives should employ checks and balances among various organizations and individual employees within key institutions, so that none are too powerful in the process of defining what decentralization means or controlling its implementation. This is particularly important in cases where there is considerable conflict among major central government agencies over control of the decentralization agenda. Once agreed upon, the responsibilities of all relevant actors should be formalized in a detailed contract, and a system of monitoring and enforcing compliance with the terms of the contract is needed. This is, of course, easier to say than to do, but the likelihood of realizing good cooperation is improved if the decentralization process is properly negotiated and appropriately structured from the start.

“Fifth, an effective decentralization program requires a strategic implementation approach. Those in charge of reform efforts must be careful not to do too much too quickly, and they should try to phase in steps in a logical way. Reforms that have the greatest possibility of succeeding in a relatively short time frame should be undertaken first. This requires a process for prioritizing reforms, focusing on fairly simple tasks that don't immediately threaten in a significant way the tolerance of the central power base or overwhelm the capacity of local governments. Strategically differentiating among local governments can also foster success and improve central government resource use. Some local governments are likely to be relatively capable and can be given greater responsibility, while others will require technical assistance from the center and clear incentives to improve their performance. Collectively, these aspects of an initially modest, gradual approach should raise the prospects for early success, creating a stronger base on which to build further momentum in the future.

“Sixth, decentralization needs to be thought of in broader institutional terms than just shifting power from central governments to local governments. In fact, decentralization may sometimes involve . . . an increased role for central or regional agencies, at least at early stages. In addition, there may be a role for private sector firms, non-governmental organizations, and civic groups. The role that these alternative actors can play in the delivery of services traditionally provided by the public sector should be defined in a way that takes advantage of their particular strengths and opportunities but maintains fundamental public sector objectives.

“Seventh, there should be a greater balance between decentralization reforms on the supply and demand side of service provision. Consulting the consumer on public expenditure priorities can be critical, but reforming procedures for delivering a service in an appropriate and cost-effective way cannot be ignored. Some attention to both types of concerns is needed in designing any decentralization program, and some types of arrangements may need to be defined in a sector-specific way.

“Eighth, a pragmatic fiscal decentralization program should judge service providers and employees on the basis of results, not on their slavish adherence to fixed bureaucratic procedures. This requires structuring a process that provides incentives for good performance, but that also allows flexibility, so that providers are able to operate in a more customized way if this is appropriate. This type of approach requires a degree of discretion that is often difficult to achieve in developing countries, but its success record in international experience suggests that serious consideration.

“Ninth, perhaps the key challenge in building decentralization is to stimulate local people to use their local governments to help meet their needs more fully. This recommendation was not discussed separately in this paper, but it underlies most of the other topics explored. Without increased local input and accountability through political reform, decentralization of administrative and fiscal functions is ultimately a meaningless exercise. There are various ways

of realizing this important goal, but often-disillusioned local residents have to be gradually convinced that their local governments can and will respond to them, and this requires some concrete results in the form of improved performance of service delivery functions.

“Finally, international donor agencies must be careful to play an appropriate role in decentralization programs. It is critical that they not try to push ideas that are not workable in the context of a particular country. They must also strive to be more realistic in their expectations. Recognizing that decentralization and local government reform are gradual, long-term projects, they must move towards support mechanisms that are long-term and flexible, focusing on institution building as much as on service delivery. In the interests of sustainability, they must resist the temptation to create parallel mechanisms to speed up implementation, instead figuring out how to use local institutions and procedures as modified”

ANNEX 4: OBSERVATIONS ON FISCAL DECENTRALIZATION

The following is extracted from: UNDP, Mission Memorandum – Promoting Sound Governance Through Decentralization (Philippines), internal UNDP working paper prepared by K. Ellison, undated, pp. 5-6

“ . . . Analysts generally recognize the following principles or "rules" of fiscal decentralization.

1. **Autonomy.** LGUs should be independent in setting their own expenditure priorities. If priorities are given by centralized structures then it is not decentralization, because the LGU is being treated essentially as an appendage of central government.
2. **Revenue Adequacy.** LGUs should have revenues available to meet their obligations. This rule *does not* imply that LGUs will necessarily have everything they need, to deliver services given to them outright, because one strong reason for decentralizing is that central governments no longer have such resources and must considerably downsize their level of investment. It does mean that central government should share such resources as available for decentralized functions (through transfers or revenue sharing) and should assign LGUs revenue responsibilities commensurate with expenditure functions. What should not be done is to allow central ministries to consume scarce national resources for functions that have been devolved to LGUS.
3. **Equity.** Funds for LGUs should vary positively with need factors and inversely with their own capacity to tax. This means that central government must take a careful look at revenue allocations in relation to the unique needs of LGUS. This rule often gets applied by means of an allocation formula which differentiates among LGUs according to criteria like basic unmet needs, poverty index, population density, remoteness and the like.
4. **Predictability.** This rule is very important. LGUs should be able to predict revenues available to them from both their own sources (via revenue projections), from automatic shares in taxes, and from transfers for specific purposes. Budget accuracy is essential to good governance. Virtually any system for tax sharing and/or transfers that avoid automatic releases will be open to politicization and administrative fiat. So it is important to divide a system which, to the degree possible, shares resources on an ‘automatic’ basis in accord with once or more formulae.
5. **Resource Allocation.** In order to obtain efficiency revenues should be received in a neutral manner relative to the LGUs decision about allocation to different sectors. In other words, efficiency will decline to the degree that revenues do not allow management flexibility or require excessive ‘pre-audit’ (i.e., central approval) of expenditures.
6. **Simplicity.** Revenue sharing should be simple and transparent so that LGUS, central government and citizens understand how much is being shared for what purposes.’ The practice of ‘grantsmanship’ should be discouraged even though it tends to be highly valued in government leadership in more dysfunctional centralized systems. ‘Grantsmanship’ basically refers to the ability of a leader to leverage resources out of the

system above and beyond the norm. Whether politician or civil servant the grantsmen approach, if widespread, undermines the systems credibility and transparency.

7. Incentives. Good management and efficient service delivery should be rewarded. There are a variety of ways to structure incentives so that they do not get disguised as another form of grantsmanship.
8. Safeguards for Grantors. Central government has a acceptable role to impose some safeguards to assure that objectives are met where it is transferring funds for specific purposes or simply sharing a portion of tax revenue. In the former case a more activist monitoring role is appropriate, in the later case (untied sharing of revenues) the most important role is to assure that cumulatively LGUs do not exceed, certain safe levels of project commitments and borrowing (if they are allowed to incur deficits through credit finance). These roles are especially important in a unitary state like Thailand. The trick is to strike a balance between the rule of 'safeguards' and the rules of 'autonomy and 'resource allocation'. “

“ . . . The eight principles of decentralization presented here are liberally drawn from the paper 'Fiscal Decentralization: A Methodology for Case Studies', by G.M. Guess, W. Loehr and Jorge Martinez-Vazquez, prepared for USAID under the Consulting Assistance on Economic Reform (CAER 11) project Task Order #4.”

ANNEX 5: POTENTIAL BENEFITS OF DECENTRALIZATION

Extracted from: UNCDF, Taking Risks: Background Papers, September, 1999, pp. 202-203

“Efficiency Benefits

It is believed that one or more of the following propositions are true of local, state or government institutions:

- **Resource allocation incentives-they** face greater incentives to allocate resources (funds or staff) to those types of basic services and infrastructure that benefit the poor.
- **Local information-they** are better placed to respond to local variations in conditions, tastes, standards, location requirements and the like, for such services and infrastructure.
- **Local oversight-related** to local information, they should ensure more efficient use of given levels of funds or staff through closer oversight and control.
- **Maintenance incentives-they** face greater incentives to ensure proper operation and maintenance than do central state institutions.
- **Greater coordination-it** is easier to ensure coordination of state agencies and line department staff, budgets and activities at the local level. This ensures complementary rather than competing activities.
- **Greater local resource mobilization-it** is easier for locally-based institutions to levy and collect taxes and user fees, because of the more evident returns seen by those who pay.

Governance benefits

At the same time, empowering local state institutions operating under certain sets of conditions-should allow improved local governance, that is:

- Greater scope for public participation in and oversight of decisions and activities.
- Greater access to information and transparency.
- Improved linkages between state and civil society.

Note: Some definitions of improved local governance would also include improved provision of services-this is unhelpful for the present purposes.”