



## AN INTRODUCTION TO DECENTRALISATION

### What is decentralisation?

Decentralisation is the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector. This is a complex, multifaceted concept. Different types of decentralisation should be distinguished because they have different characteristics, policy implications, and conditions for success (World Bank in Olsen, 2007).

### What decentralisation is?

#### A counterpoint to globalisation

Decentralisation is a counterpoint to globalisation. Globalisation often removes decisions from the local and national stage to the global sphere of multi-national or non-national interests. Decentralisation on the other hand brings decision-making back to the sub-national and local levels. In designing decentralisation strategies it is necessary to view the interrelations of these various dimensions – global, regional, national, sub-national, local. In this regard, the role of the nation-state gains increased importance as a mediating force between the forces of globalisation and localisation.

#### An integral part of democratisation

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

#### A phenomenon involving multiple areas, actors and sectors

Decentralisation is a complex phenomenon involving many geographic entities, societal actors and social sectors. The geographic entities include the international, national, sub-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 decentralisation policies and programmes it is essential to use a systems-approach encompassing these overlapping social sectors and the different requirements which each makes.

#### A logical application of core characteristics of good governance

Decentralisation is the logical application of the core characteristics of good governance at the sub-national and local levels. These characteristics include accountability, transparency, rule of law and responsiveness. In designing decentralisation policies and programmes, the core characteristics of good governance provide a set of practical guidelines to follow in designing mechanisms, which will "operationalise" these principles.

#### A mix of three types of functions and relationships

Decentralisation is a mixture of administrative, fiscal and political functions and relationships. In the design of decentralisation systems all three must be included.

### **A mix of four dimensions**

Decentralisation 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 behaviour 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 decentralised governance planning must be based on an analysis of these four dimensions

### **A new form of communication**

Decentralisation involves new communication and information flows between each geographical area, societal actor and social sector. The district level is often a useful platform for the coming together of national and local actors for dialogue, decision-making, budgeting and reporting (Work, 1998).

### **What decentralisation is not?**

#### **An alternative to centralisation**

Decentralisation is not an alternative to centralisation. Both are needed. The complementary roles of national and sub-national actors should be determined by analysing 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 decentralisation strategy it is imperative that such an analysis be done.

#### **Exclusively public sector reform**

Decentralisation 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 decentralisation programmes must take this into account. This is why UNDP prefers the use of the term "decentralised governance" rather than the term decentralisation.

### **Why decentralise?**

#### **To achieve the goals of sustainable and people-centred development**

Decentralisation is a form and process of governance. Just as there can be good governance at the national level there can be good decentralised governance. Good governance includes the mechanisms and processes, which enable a society to achieve more sustainable and people-centred development. Good decentralised governance includes the forms and procedures that allow a society to achieve at the sub-national and local levels the goals of poverty eradication, sustainable livelihoods, environmental regeneration, and gender equality. It is therefore imperative that in the design of decentralised governance policies and programmes these long-term goals be reflected in the mechanisms and institutions being proposed at the national, sub-national and local levels. It cannot be assumed that these goals will

automatically be achieved through decentralisation. They must be *designed into* the decentralisation process itself (Work, 1998).

### Two perspectives on Decentralisation

| Supportive View of Decentralisation  | Apprehensive View of Decentralisation   |
|--|---|
| <ul style="list-style-type: none"> <li>• “elections are fair and free and a local competitive political system will emerge”</li> <li>• “resources will be made available from the central state or from local taxation”</li> <li>• “decision-making on local plans and priorities will take place at local level, not at the centre”</li> <li>• “the new democratic system at local level will be able to cope with alternative (traditional) sources of authority”</li> <li>• “citizens will be able to exercise voice in the management of local affairs”</li> <li>• “decentralising service delivery leads to better results that benefit poor people”</li> </ul> | <ul style="list-style-type: none"> <li>• “the governance conditions are such that we will only create another layer of state inefficiency”</li> <li>• “decentralisation is too costly a process (including a risk of fiscal indiscipline), so most countries (especially small ones) cannot afford it</li> <li>• “decentralisation should not take place before the necessary capacity exists at central level ”</li> <li>• “decentralisation will lead to a clash between different sources of power and legitimacies”</li> <li>• “there is not enough social capital at local level to promote effective engagement in local affairs”</li> <li>• “decentralisation has uncertain impact on poverty reduction</li> </ul> |

Source: EU, 2007

### How to decentralise?

#### Consider the existing cultural DNA

Decentralisation is affected by the "cultural DNA" of a society – the images, assumptions and internal stories people operate out of regarding issues of authority, role of government, role of the citizen, conflict, consensus, power, role of elites, role of the poor, the role of women, the role of capital, etc. In order to design effective strategies and mechanisms of decentralisation, it is necessary to analyse the underlying cultural DNA which gives rise to the actual behaviour and relationships entailed.

#### Consider changing relationships

Decentralisation always involves changes of relationships between and among different societal actors, social sectors and geographic areas. These changes can be threatening or can be seen as enabling for all parties – a win-win situation. In designing decentralisation strategies it is necessary to think through the most effective approaches to making changes in relationships of power, authority and responsibility based on the motivation and self-interest of the various parties involved and the common objectives shared by all groups and individuals. It is necessary to empower and build the capacities of the weaker actors and to provide incentives for each party to make the desired changes.

#### Consider timing and sequencing

Decentralisation is a long-term effort in which timing and phasing are crucial. In designing



and implementing decentralisation an evolutionary approach should be adopted rather than a "shock treatment." Even so there is no universal recipe for the sequencing of decentralisation.

**Consider enhancing mechanisms of participation and partnership**

Decentralisation is increased in effectiveness through mechanisms of full participation and partnership. Participation must involve all the societal actors playing their optimal and legitimate roles in policy formulation, resource management and service provision. Popular participation is crucial in each phase of decentralisation, from situational analysis, design, implementation, monitoring, evaluation and feedback. Partnership must be based on mutual trust and understanding of the various actors, acknowledging that each has both strengths and weaknesses. Each actor must both enable the other actors in their legitimate roles and hold them accountable if they step outside their legitimate mandates. It is important to select suitable entry points for partnerships which allow for collaborative efforts among the different actors. Funding should be made available for micro-projects involving collaboration. The design of decentralisation efforts must promote both participation and partnership formation.

**Consider the mental model which is being used**

Decentralisation as a term comes from a mental model containing a centre and a periphery. This is only a model just as a pyramidal social structure is only a mental model. When we view a society as a whole system we see not vertical layers (as in a pyramid) or concentric layers (as in the centric model), but rather a horizontal playing field with autonomous yet interrelated actors, sectors and geographic areas. Hobbes provides us with another mental model of a society – the human body. In designing decentralisation policies and programmes it is necessary to be self-conscious of the mental model one is using and if necessary to adapt or completely change the model to better fit reality (Work, 1998).

**What are the risks of decentralization?**

**Financial Equalisation:** one of the major risks of decentralisation is the risk of increasing inequality through fiscal decentralisation that is not balanced throughout the country. Certain already endowed districts, regions or localities might be better off than poorer districts and regions, and therefore potentially stand to benefit even further from an unbalanced fiscal decentralisation process. This means that, to the extent that resource endowment differences within a given country’s constituent jurisdictions are quite significant, equalization measures have to be taken to avoid the ever-so-present potential of fiscal decentralization perpetuating greater developmental disparities. A number of countries have recognized this important consideration and equalization formulae have included the application of discriminatory fiscal transfers based on the poverty profile of the recipient regions/municipalities. What is important to observe is that there exist many guiding principles for the formulation of fiscal equalization and that the choice of what to consider should reflect the actual situation on the ground.

**Local elites:** there is a risk that decentralisation can reinforce existing local elite structures and that local elites capture a fledgling decentralisation process. Obviously this only reinforces the need to work with both aspects of decentralisation and local governance when trying to improve local democratic and political processes. The need for a vibrant civil society is also emphasised here.

**Political commitment:** it is widely accepted that political commitment on the part of federal or state governments is a *sine qua non* of effective democratic decentralisation, and especially of forms of decentralisation that are specifically geared to the interests of the poor. Successful pro-poor decentralisation is associated with governing parties that are politically committed to the democratic empowerment of local governments. Yet it is essential to consider the wide range of issues that influence decentralisation. There is a need for a stronger focus on institutional issues, i.e., both on the rules that influence the behaviour of actors at different levels of government, in the private sector and in civil society, and on the organisations that implement these rules. This has become increasingly evident. Such a broader agenda has led to an enhanced focus on accountability and capacity, has strong implications for project design and policy dialogue, and calls for a reinvigorated research effort focused on developing countries.

**Long-term commitment of donors:** if the development of viable local governance systems is seen as a priority task, it logically follows that the decentralisation policies of donor agencies call for long-term institutional vision. This is due to the fact that the process of decentralisation is highly political, fragile and risky, and the need for a long-term institutional perspective is crucial (Olsen, 2007).

## How many types of decentralisation are there?

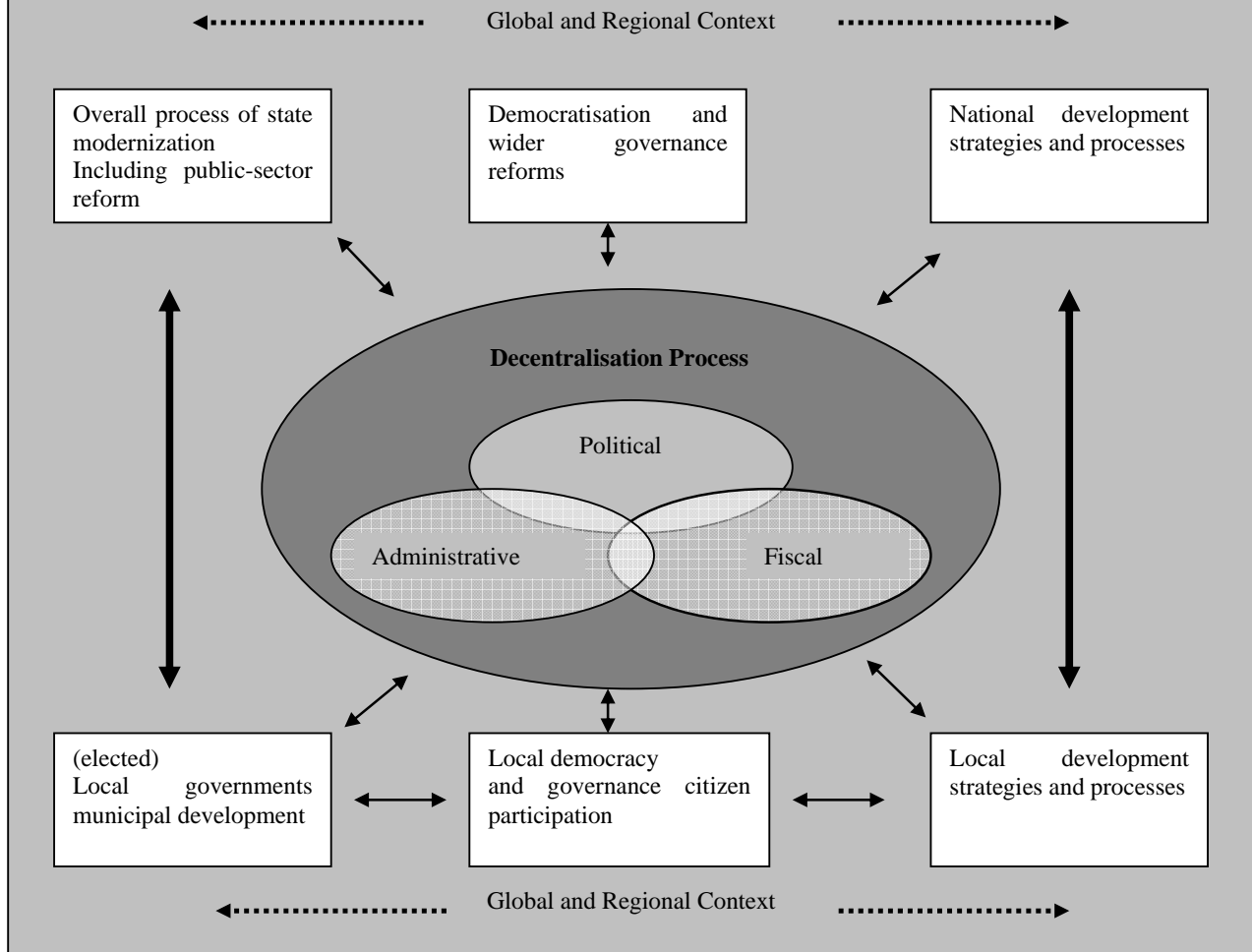
There are basically three types of decentralisation within the public sector:

**1) Political decentralisation** is the transfer of political power and decision-making authority to subnational levels such as elected village councils, district councils and state level bodies. Where such transfer is made to a local level of public authority that is autonomous and fully independent from the devolving authority, **devolution** takes place.

**2) Fiscal decentralisation** involves a level of resource reallocation to local government which would allow it to function properly and fund allocated service delivery responsibility, with arrangements for resource allocation usually negotiated between local and central authorities. The fiscal decentralisation policy would normally also address such issues as assignment of local taxes and revenue - sharing through local taxation and user and market fees.

**3) Administrative decentralisation** involves the transfer of decision-making authority, resources and responsibilities for the delivery of selected public services from the central government to other lower levels of government, agencies, and field offices of central government line agencies. The most radical form of administrative decentralisation is **devolution**, with local government having full responsibility for hiring/firing of staff and assigning authority/responsibility. **De-concentration** is the transfer of authority and responsibility from one level of the central government to another, with the local unit accountable to the central government ministry or agency which has been decentralised. **Delegation**, on the other hand, is the redistribution of authority and responsibility to local units of government or *agencies* that are not always necessarily branches, or local offices of the delegating authority, with the bulk of accountability still vertically directed upwards towards the delegating central unit.

**Figure 11: Looking at decentralization as an open system**



### What is divestment?

Divestment is a term originating from finance and business, but is also used in the context of public administration. Divestment occurs when planning and administrative responsibility or other public functions are transferred from government to voluntary, private or non-governmental institutions. This often involves contracting out partial service provision or administrative functions, deregulation or full privatisation. For example, the provision of technical support to lower levels of government in the water sector via private companies instead of a national water ministry would be a form of divestment (EU, 2007).

### What is principle of subsidiarity?

**Subsidiarity** is the principle which states that matters ought to be handled by the lowest competent authority. Normally it is defined as the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.

Subsidiarity is, ideally or in principle, one of the features of federalism. The concept or principle is found in several constitutions around the world (see, for example, the Tenth Amendment to the United States Constitution and the Maastricht Treaty of 1993). One of the clearest examples is the case of Switzerland with a strong federalist state built on the principle of subsidiarity.

The overarching principle of subsidiarity is that problems are best solved in the subsystem where they arise. Subsystems are encouraged to resolve their conflicts themselves without referring them to higher authority. Whatever solution is adopted, the subsystem will have to carry it out. Since their consent is essential, the optimum condition is for them to resolve their conflicts independently. If a solution is worked out by the subsystem, appeal to authority is not necessary. The principle of subsidiarity, therefore, applies to those areas where a central government does not have exclusive competence, the principle delineating those areas where the government should and should not act. **This means that the concept of subsidiarity has both a legal and a political dimension** (Olsen, 2007).

## What is local government?

Local government is an umbrella term. We are not attempting to provide a definition as meanings can differ hugely depending on the part of the world one is dealing with. Taking this into account, local government can mean county, municipality, city, town, township, local public authority, a school district, regional or interstate government entities, or any agency or instrumentality of a local government. Despite this multiplicity of entities, it is useful to distinguish between two broad types of local government:

- local state administrations, which manage and run local affairs on a day-to-day basis;
- local representative bodies, such as municipal councils.

These latter are governance bodies that may either be directly or indirectly elected, as is the case of many local governments, or appointed, by a higher level government or community representatives. There are also mixed forms of governance bodies whereby some representatives are appointed and others elected (EU, 2007).

## What is local governance?

**Local governance** comprises a set of institutions, mechanisms and processes through which citizens and their groups can articulate their interests and needs, mediate their differences, and exercise their rights and obligations at the local level. The building blocks of good local governance are many: citizen participation, partnerships among key actors at the local level, capacity of local actors across all sectors, multiple flows of information, institutions of accountability, and a pro-poor orientation (UNDP 2004).

Local governance emphasises the need to look beyond the narrow perspective of legal frameworks and local government entities. It seeks to include the multiplicity of formal and informal relationships between different actors in development (e.g. local government, the private sector, associations, de-concentrated agencies, CSOs) that shape and influence the output and effectiveness of political and administrative systems at a sub-national level. There is a large degree of synergy and coherence between supporting national governance processes and local governance, as many of the aspects are in

fact the same. Therefore, it is necessary to work with governance principles at local levels to strengthen local governance processes (Olsen, 2007).

## What is local economic development?

Local (economic) development is an increasingly popular concept. Essentially it refers to a process by which a variety of local institutions and actors mobilise and work together to plan and implement sustainable local development strategies in a given territory. Support to decentralisation can also be pursued through complementary reforms aimed at creating strong linkages with local economic development and poverty reduction.

The overall purpose of local economic development is to build up the economic capacity and legal regulatory framework for a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners interact through dialogue and joint activities. The stimulation of healthy economic competition is part of the approach and can help kindle economic growth and generate employment.

There are many options to stimulate local economic development, which encompasses an improved local business investment climate; investments in (soft) infrastructure, sites and premises for business; encouragement of local business growth; and promotion of sector (and business cluster) development, area planning and assistance for low income or hard-to-employ workers.

Poverty reduction presupposes economic development but also equity. Decentralisation introduces the risk of regional and local differences in economic development. These have to be compensated by adequate fiscal policies (EU, 2007).

## What is the difference between decentralisation and local governance?

The main differences between decentralisation and local governance are in the actual actors participating in the process and the mode of interaction between governments, the private sector and civil society.

Decentralisation pertains to public sector institutional and organisational reforms and processes and the support thereof, whereas local governance pertains more to supporting the creation of an enabling environment where multi-stakeholder processes - including public and private sector, as well as civil society, interact to foster effective local- development processes. This is summarised in the table below.

| <b><i>Decentralisation Reforms</i></b>                                    | <b><i>Local Governance</i></b>  |
|---|---|
| Support to the formal public sector elements of a decentralisation reform | Support to the wider involvement of citizens, NGOs, private sector in relation to working with and monitoring local governments |
| Examples include:<br>· Assistance to central ministries                   | Examples include:<br>· Assistance to private sector   |



|   |  |
|---|--|
| <p>responsible for reform to develop new policies and legislation.</p> <ul style="list-style-type: none"> <li>· Capacity building of local governments for improved planning, financial management, etc.</li> <li>· Provision of development funding to local governments for water, roads, health, etc.</li> </ul> | <p>contractors to enable them to bid for decentralised works contracts.</p> <ul style="list-style-type: none"> <li>· Civic education and support to CBOs to strengthen the capacity of local communities to hold their local governments accountable.</li> <li>· Support to gender equality and empowerment</li> </ul> |
|---|--|

Source, Olsen 2007

Local governance issues can be pursued even without decentralisation. However, decentralization reinforces and legitimises local governance processes when correctly done.

### What is accountability?

Accountability refers to the control of the power exercised within state and society, as well as to the obligation for the people holding power to explain their decisions. In addition, it concerns the duty of the controlling agencies to reward good performance and to sanction abuses of power. Accountability presupposes clear definition of the functions, duties, and rules for the scope of action of public and private institutions. In terms of decentralisation and local governance, accountability relations change and one of the foremost issues is the upward accountability from local governments to the national level. Yet at the same time, the downward accountability to local citizens is a very crucial aspect of local governance and decentralization (Olsen, 2007).

### What is transparency?

Transparency implies that the public in general, or at least those directly affected, should obtain information from the state about the rationale underlying decisions, decision-making criteria, the intended manner of implementing a decision, and any insight into its effects. Participatory planning and budgeting exercises can promote increased transparency at local levels in resource allocations and increased transparency can be ensured in management of public funds (both revenue and expenditures) through citizen participation in user committees (schools, health clinics, water boreholes) (Olsen, 2007).

### What is Participation?

Participation implies that all population segments need to be connected to the political and social processes that affect them. This means that public forums exist where different groups can express dissenting opinions and personal interests, and where these viewpoints are treated as serious input in the decision-making process. At local government level, the most widely used methodology is that of bottomup planning approach which encourages wider community participation in setting priorities for local development (Olsen, 2007).



## What is the link between Decentralisation and Accountability/Transparency?

Fiscal decentralisation rearranges roles and responsibilities among different levels of governments with the intent of transferring some of the fiscal decision-making powers from central to sub-national governments. Fiscal decentralisation rules regulate four areas: (i) expenditure assignment; (ii) revenue assignment; (iii) intergovernmental transfers, and (iv) sub-national borrowing. Expenditure autonomy goes beyond merely assigning service delivery responsibilities to local governments—the extent of this autonomy defines, in the eyes of citizens, the relevance of local governments in service delivery. Revenue autonomy and transfer systems define the funding level for local governments to deliver these services.

Fiscal accountability seeks transparency in the management of public funds. It requires that governments manage finances prudently and ensure integrity in their financial and non-financial reporting, control, budgeting, and performance systems. It also necessitates reporting comprehensively on what local governments have achieved with their expenditures. Supply-side measures to improve downward and upward financial accountability include strong local capacity for budgeting and public financial management; standards for control on intergovernmental transfer revenues (i.e., clean audit reports, submission of financial statements); publication of transfer figures; transparent local public audit systems— with publicly available audit findings; clear rules for responsible local borrowing (including rules regarding defaults), with public access to borrowing information; and clearly defined rules regarding hard budget constraints for local governments.

Demand-side measures for fiscal accountability include publicly accessible local government financial information (including budgets and end-of-year financial statements); strong public involvement in the budgetary process through participatory budgeting practices; gender-sensitive planning, budgeting, and resource allocation, reinforced by gender audits; independent budget analysis; and participatory public expenditure tracking programs that monitor budget execution and leakage of funds.

*Political accountability* is a process whereby citizens hold their elected officials to account for their behaviour and performance. This could be, for example, directly through elections. Political accountability can also be improved through elected local officials' overseeing local executives, through activities that increase awareness about the policy performance of local governments, or through direct citizen involvement in policy decision-making beyond elections.

### Forms of decentralization and accountability

|            |                                   |             |
|------------|-----------------------------------|-------------|
| De<br>cisi | <b>Decision-makers located at</b> |             |
|            | Central level                     | Local level |

|              |  |  |
|--------------|--|--|
| Central body | <p><b><u>Centralisation</u></b><br/>The Ministry of Health HQs centrally deploys health staff among different administrative units in the country.</p> <p><b><u>Delegation</u></b><br/>A relative autonomous central health board or health service commission manage staff deployments nationally, as well as an executive agency with delegated powers under ministries.</p> | <p><b><u>De-concentration</u></b><br/>Health field officer is granted discretion by the HQs regarding the assignment of responsibilities and duty stations to subordinate staff members.</p> |
|              | Local body and Citizen   | <p><b><u>Delegation with participation</u></b><br/>A relative autonomous local/district health board or health service commission manages staff deployments locally.</p>                     |

An appropriate local political setting conducive to downward accountability requires free and fair elections and local political competition for mayors and councillors. This kind of political setting also supports competitive multi-party systems and provides a clear separation of power between the executive (i.e., mayor) and legislative (i.e., council) bodies of local governments. It also establishes mechanisms and provides tools to the legislative body in overseeing the operations of the executive body.

In order to make local governance strategy within accountability concrete, there are four key areas of focus:

- a) Actors, powers, and accountability relationships (research on the impact of the local political environment on the subsequent outcome of decentralisation reforms);
- b) Economic and social inequalities (to better understand the relationship between socioeconomic inequalities and "elite capture" as they affect the design of decentralisation reforms);
- c) Local electoral structure and the party system (to grasp the structure of local government electoral systems and processes, and their impact on the degree of accountability of local governments to citizens);
- d) The drivers of locally-elected-leader accountability and performance (to examine factors that drive the performance of locally elected leaders, including accountability).

However, the risks of local misuse of funds or corruption are also evident as more funds and more powers are devolved to a new, untrained local leadership and a local administration with limited capacity for, e.g., financial management. If more funds are channelled to local governments through general budget support and sector support programmes, the risks of 'decentralisation of corruption' are of course latent, although they may be exaggerated. Even though funds misappropriated may be insignificant when compared with the far larger central



misuse, the examples of a very limited overdraft of an account or an outright theft from the coffers of a local government is often much more visible to the general public than a complicated kick-back or fraud at the ministerial level. Such cases are also easily utilised in the debate – in particular from the line ministries - to substantiate the need for more central control on local activities, although it could also be interpreted as evidence of the well-functioning public monitoring on local government administrations. This is why strong emphasis should be put on developing the *general* financial management capacity of local governments and administrations, and enhancing the overall financial accountability and auditing, i.e., and not uniquely focusing on separate sector capacity (Olsen, 2007).

### **What is the link between decentralization and civil society?**

Experience worldwide, however, points to the reality that decentralisation has usually meant the deconcentration or devolution of power and authority from the central government to sub-national (local government) authorities, be they provincial or district administrations, urban municipalities, local/rural councils, county authorities, etc. In most cases, decentralisation stops at this level and rarely do governments recognize that civil society/grassroots institutions may suffer as much from the centralization of power at the sub-national level as they did under the country’s central government command. Because of this recognition, the main challenge now in discussions of local governance is to ensure that the strengthening of local government through decentralisation moves hand in hand with a deliberate effort to mobilize and strengthen the civil society structure, processes and institutions at lower levels in a manner that would allow their relationship with sub-national authorities to be more interactive and mutually reinforcing.

A related challenge in empowering civil society concerns the extent to which the political environment is perceived to be supportive of people’s welfare. For civil society to be effective, a supportive social, institutional, and policy environment must be created as this is usually required for the development of the sustainable social trust that is so fundamental for continued civil society engagement in social welfare issues/interventions. In the absence of a transparent, accountable and fair system of sharing resources and opportunities amongst the citizens (e.g. employment opportunities that guarantee minimum standards of living), the poorer members of society become more preoccupied with basic economic survival issues than with the more societal common good/pursuits. There is need to build ‘local governance systems’ tuned to the situation, and the type of support (‘best practice’) will also depend on the situation. There is furthermore a need to recognise decentralization reform as ‘a political process’. **Decentralisation reforms offer the opportunity to participate in building a responsive public sector – both at national and sub-national levels – but, as this is a political and social process, it cannot be solved by technical solutions alone** (Olsen, 2007).

*Source: R. Work, 1998, Factors to Consider in Designing Decentralised Governance Policies and Programmes to Achieve Sustainable People-Centred Development, Management Development and Governance Division, United Nations Development Programme, New York, February 1998; Hans Bjørn Olsen, 2007, Decentralisation And Local Governance, SDC; European Commission, 2007, Supporting Decentralisation and Local Governance in Third Countries.*