

Importance of Decentralization

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What is Decentralization

- The **transfer of authority and responsibility** for **public functions** from the **central government** to **subordinate or quasi-independent government organizations** and/or the **private sector**



Types of Decentralization

- Political
- Administrative
- Fiscal
- Market



Political Decentralization

- giving citizens or their elected representatives **more power** in public decision-making
- giving citizens, or their representatives, **more influence** in the formulation and implementation of policies.
- allowing citizens to **know better** their political representatives; allowing elected officials to **know better** the needs and desires of their constituents.
- requires constitutional or **statutory reforms**, the development of pluralistic political **parties**, the strengthening of **legislatures**, creation of **local political units**, and the encouragement of effective public interest **groups**



Administrative Decentralization

- seeks to **redistribute authority, responsibility and financial resources** for providing public services among different levels of government
- the transfer of responsibility for the **planning, financing and management** of **certain** public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional or functional authorities.
- 3 types: **deconcentration, delegation, devolution**



Deconcentralization

- considered to be the **weakest form** of decentralization and is used most frequently in unitary states
- **redistributes decision making authority and financial and management responsibilities among different levels** of the *central* government
- can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces or districts, or it can create strong field administration or local administrative capacity under the supervision of central government ministries.



Delegation

- more extensive form of decentralization
- central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations **not wholly controlled** by the central government, **but ultimately accountable to it**
- Governments delegate responsibilities when they **create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semi-autonomous school districts, regional development corporations, or special project implementation units**. Usually these organizations have a great deal of discretion in decision-making.
- They **may be exempt from constraints on regular civil service personnel** and may be **able to charge users** directly for services.



Devolution

- transfer authority for decision-making, finance, and management to quasi-autonomous units of local government **with corporate status.**
- usually transfers responsibilities for services **to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions**
- local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions.
- It is this type of administrative decentralization that **underlies most political decentralization.**



Fiscal Decentralization

- If local governments and private organizations are to carry out decentralized functions effectively, they must have an **adequate level of revenues** –either raised locally or transferred from the central government– as well as the **authority to make decisions about expenditures.**
- In many developing countries local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority.



Fiscal Decentralization

Forms of fiscal decentralization:

- **self-financing** or cost recovery through user charges,
- **co-financing** or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labor contributions;
- expansion of **local revenues** through property or sales taxes, or indirect charges
- intergovernmental **transfers** that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and
- authorization of municipal **borrowing** and the mobilization of either national or local government resources through loan guarantees.



Market Decentralization

- The most complete forms of decentralization from a government's perspective are **privatization** and **deregulation** because they shift responsibility for functions **from the public to the private sector**
- Privatization and deregulation are usually, but not always, accompanied by economic liberalization and market development policies
- They allow functions that had been primarily or exclusively the responsibility of government to be carried out by businesses, community groups, cooperatives, private voluntary associations, and other non-government organizations.



Privatization

- can range in scope from leaving the provision of goods and services entirely to the free operation of the market to "public-private partnerships" in which government and the private sector cooperate to provide services or infrastructure



Privatization

can include:

- allowing private enterprises to perform functions that had previously been monopolized by government;
- contracting out the provision or management of public services or facilities to commercial enterprises
- financing public sector programs through the capital market (with adequate regulation or measures to prevent situations where the central government bears the risk for this borrowing) and allowing private organizations to participate; and
- transferring responsibility for providing services from the public to the private sector through the divestiture



Deregulation

- reduces the legal constraints on private participation in service provision or allows competition among private suppliers for services that in the past had been provided by the government or by regulated monopolies
- In recent years privatization and deregulation have become more attractive alternatives to governments in developing countries
- Local governments are also privatizing by contracting out service provision or administration.



Choosing the most appropriate form of Decentralization (Why Decentralization?)

- **broadens participation** in political, economic and social activities in developing countries.
- helps **alleviate the bottlenecks in decision making**
- **help cut complex bureaucratic procedures**
- **increase government officials' sensitivity** to local conditions and needs.
- **reach larger numbers of local areas with services**



Why Decentralization?

- allow **greater political representation** for diverse political, ethnic, religious, and cultural groups in decision-making
- relieve top managers in central ministries of "routine" tasks to **concentrate on policy**.
- create a **geographical focus** at the local level for coordinating national, state, provincial, district, and local programs more effectively and can provide better opportunities for participation by local residents in decision making.
- Decentralization may lead to more **creative, innovative and responsive programs** by allowing local "experimentation."
- It can also **increase political stability and national unity** by allowing citizens to better control public programs at the local level.



Potential Disadvantages

- may **not always be efficient**, especially for standardized, routine, network-based services.
- It can result in the **loss of economies of scale** and control over scarce financial resources by the central government.
- Weak administrative or technical capacity at local levels may result in **services being delivered less efficiently and effectively** in some areas of the country.
- Administrative responsibilities may be transferred to local levels without adequate financial resources and **make equitable distribution or provision of services more difficult**.
- Decentralization can sometimes **make coordination of national policies more complex** and may **allow functions to be captured by local elites**. Also, distrust between public and private sectors may undermine cooperation at the local level.



What to do

- Project and program planners must be able to assess the **strengths and weaknesses** of public and private sector organizations in performing different types of functions.
- Before developing elaborate plans for decentralization, they must **assess the lowest organizational level of government at which functions can be carried out efficiently and effectively** and -- for functions that do not have to be provided by government -- the most appropriate forms of privatization.



What to do

- Centralization and decentralization are **not "either-or" conditions**.
- In most countries an appropriate **balance** of centralization and decentralization is essential to the effective and efficient functioning of government.
- Not all functions can or should be financed and managed in a decentralized fashion.



What to do

- Even when national governments decentralize responsibilities, they often retain important **policy and supervisory roles**.
- They must create or maintain the "**enabling conditions**" that allow local units of administration or non-government organizations to take on more responsibilities.
- developing appropriate and effective national policies and regulations for decentralization and strengthening local institutional capacity to assume responsibility for new functions.
- The success of decentralization frequently depends heavily on **training** for both national and local officials in decentralized administration.
- **Technical assistance** is often required for local governments, private enterprises and local non-governmental groups in the planning, financing, and management of decentralized functions

