



VIEW POINT - 1

By The Pathfinder Foundation

Decentralization/Devolution: Empower the Disempowered?

Background

Decentralization/Devolution has been pursued in over 80% of developing countries. It has been an important element of the “democratization” that has taken place since the end of the Cold War. Greater emphasis has been placed on citizens as the source of legitimate state authority. There has been a considerable body of research on the impact of decentralization/devolution on poverty reduction, the quality of service delivery and conflict. The empirical evidence presents a mixed picture of the impact of these processes. This places a high premium on careful design of decentralization/devolution, with a particular emphasis on building local capacities. One clear message is that there is no one-size-fits-all approach. Specific local circumstances are a crucial determinant of the outcomes of such programmes. While decentralization/devolution has a mixed record overall, empirical evidence suggests that there are some areas where it is particularly effective: primary education; hospitals; local roads; markets; water supply and sanitation; and solid waste management.

Definitions

Administrative Decentralization involves transferring authority, resources, and responsibilities from central government to field offices and agencies. The sub-national units remain accountable to the Centre, though there may be some scope for local citizen participation.

Political Devolution involves transfer of substantial responsibility, decision-making and revenue-generation to sub-national units which have a significant degree of local autonomy.

Fiscal Devolution refers to the financing mechanisms that underpin all forms of decentralization/devolution. It covers both transfer of funds from the Centre and local revenue raising powers. Resource allocation from the Centre is usually based on negotiations with the sub-national units based on inter-regional equity; local financial management capacity; availability of resources; and population. To be effective, this process needs to be based on clear and transparent principles.

In most countries, there are both decentralized and devolved systems operating in parallel (i.e. centrally appointed District Offices and elected local governments). There may be also agencies with delegated powers (eg. Samurdhi and Mahaweli Authority).

Decentralization/Devolution and Development

Decentralization/devolution and development are said to be mutually reinforcing. When effective, it can:

- Increase resource allocative efficiency due to greater sensitivity to local priorities;
- Enhance responsiveness to citizen's concerns;
- Increase revenue collection via local taxes and charges; and
- Strengthen service delivery through increased accountability.

Equally as development advances the capacity of local authorities to function effectively also increases, as demonstrated in the developed countries.

Subsidiarity Principle

The general premise is that functions should be assigned to the lowest level of government that is capable of undertaking them efficiently. The appropriate level for each function tends to be country specific. There can also be regional variations within countries.

Designing Local Government Structures

The following challenges need to be addressed effectively:

- Allocating responsibilities between levels of government;
- Designing territorial jurisdictions;
- Establishing electoral arrangements;
- Designing internal management structures; and
- Creating appropriate accountability mechanisms.

The following factors strengthen the rationale for decentralization/devolution:

- Local demands for a service differs across localities;
- There are no substantial economies of scale associated with a service;
- The service is amenable to at least partial local financing through taxes and charges;
- Local authorities have the capacity to deliver the service; and
- The service is not intended to bring about substantial redistribution of income or wealth.

In practice, the evidence suggests that there can be a substantial difference between the intended design of local government and what actually transpires on the ground. This may be attributed to:

- Political capture;
- Elite capture (caste/class);
- Loss of revenue due to non compliance;
- Inadequate transfers from Centre;
- Corruption;
- Weak administrative and management systems;
- Inadequately trained staff and poor capacity;
- Low level of citizen participation

Centre/local relations are usually characterized by varying degrees of mistrust. The sources of tension include the extent of control exerted by the Centre and the accountability expected from sub-national units. It is important, therefore, to design coordination and accountability mechanisms that facilitate balanced and harmonious Centre/local relations. This is important but difficult.

Local government human resource management is another area that requires priority attention. Capacity is particularly weak in the areas of planning and financial management.

Fiscal Decentralization/devolution

There are four aspects that need to be addressed:

- Expenditure responsibilities;
- Revenue assignments;
- Financial transfers from the Centre;
- Sub-national borrowing.

Fiscal decentralization involves important decisions about the assignment of central and local responsibilities, as well as how these responsibilities should be financed. It is not solely about the transfer of financial resources from one larger unit of government to a smaller one. It is also about the extent to which local authorities are able to make decisions themselves over the management and use of decentralized/devolved resources and local revenues; and about how they account for these resources.

Clear expenditure assignment between the central and local levels is an important determinant of the success of fiscal decentralization/devolution. This sets a clear basis for other important aspects, such as revenue assignments and transfers from the Centre. Revenue administration tends to be very poor at the local level. There is no simple universal formula for fiscal transfers from the Centre. It has to be negotiated politically. Empirical evidence suggests that sub-national borrowing needs to be carefully regulated and controlled. Fiscal incompetence can bankrupt local governments.

High priority must be attached to fiscal discipline at the sub-national levels. Fiscal indiscipline can seriously undermine overall macro-economic management. Countries, such as India, South Africa and USA, have experienced such problems.

Accountability Mechanisms

The quality of sub-national government can be strengthened by designing robust accountability mechanisms. These include:

- Elections;
- Participatory performance assessments;
- Participatory budget expenditure tracking;
- Report cards for service delivery;
- Regular public meetings between political representatives and their constituencies;

Participation of Excluded Groups

One of the strongest arguments made in favour of decentralization/devolution is that it increases the participation of politically excluded groups, particularly minorities and women. The empirical evidence suggests that local government works more easily when it caters to homogeneous social groups. Diversity tends to lead to difficulties that require careful management.

Decentralization/Devolution, Conflict and Fragile Contexts

There is evidence that decentralization/devolution, involving greater legitimacy, capability and control over expenditure, mitigates conflict. However, it can intensify conflict in diverse communities, if not designed in an appropriate manner. Since decentralization/devolution involves re-calibration of political power, it can lead to new conflicts. The literature emphasizes the importance of having a gradual, carefully sequenced approach that takes into account non-state actors and the specific local socio-political context. However, there is no consensus on sequencing or entry points. They need to be determined by local conditions.

Conclusion

Decentralization/devolution can generate considerable benefits. However, the track record around the developing world is mixed. It needs to be carefully implemented, with a clear and internally consistent design. High priority must also be attached to building capacity at the local level and raising citizens' awareness.

The governance structure in almost all countries has two channels. The political channel extends from national institutions (executive & legislature) down to sub-national tiers of elected representatives. The official channel comprises the Ministries and Agencies at the Centre and administrative structures at the local levels. Each country needs to evolve its own system of

governance that assigns authority, responsibilities and resources within and across these two channels. A clear demarcation between these two channels and the various tiers within them, as well as strong accountability mechanisms throughout the system are also important. For Instance, in Sri Lanka responsibilities related to the school system are assigned to both the Centre and the provinces. Consideration can be given to demarcating these responsibilities more clearly and achieving greater equity in the allocation of resources across the system. Above all the system needs to be responsive to the needs of all citizens in the country.

Readers' comments via email to pm@pathfinderfoundation.org are welcome.