

What is Decentralization?

The term "decentralization" embraces a variety of concepts which must be carefully analyzed in any particular country before determining if projects or programs should support reorganization of financial, administrative, or service delivery systems. 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—is a complex multifaceted concept. Different types of decentralization should be distinguished because they have different characteristics, policy implications, and conditions for success.

Types of Decentralization

Types of decentralization include political, administrative, fiscal, and market decentralization. Drawing distinctions between these various concepts is useful for highlighting the many dimensions to successful decentralization and the need for coordination among them. Nevertheless, there is clearly overlap in defining any of these terms and the precise definitions are not as important as the need for a comprehensive approach. Political, administrative, fiscal and market decentralization can also appear in different forms and combinations across countries, within countries and even within sectors.

Political Decentralization

Political decentralization aims to give citizens or their elected representatives more power in public decision-making. It is often associated with pluralistic politics and representative government, but it can also support democratization by giving citizens, or their representatives, more influence in the formulation and implementation of policies. Advocates of political decentralization assume that decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made only by national political authorities. The concept implies that the selection of representatives from local electoral jurisdictions allows citizens to know better their political representatives and allows elected officials to know better the needs and desires of their constituents.

Political decentralization often 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

Administrative decentralization seeks to redistribute authority, responsibility and financial resources for providing public services among different levels of government. It is 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.

The three major forms of administrative decentralization -- deconcentration, delegation, and devolution -- each have different characteristics.

Deconcentration. Deconcentration--which is often 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. It 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. Delegation is a more extensive form of decentralization. Through delegation 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. A third type of administrative decentralization is devolution. When governments devolve functions, they transfer authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. Devolution 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. In a devolved system, 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

Financial responsibility is a core component of 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. Fiscal decentralization can take many forms, including a) self-financing or cost recovery through user charges, b) co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labor contributions; c) expansion of local revenues through property or sales taxes, or indirect charges; d) intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and e) authorization of municipal borrowing and the mobilization of either national or local government resources through loan guarantees. 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.

Economic or 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. 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: 1) allowing private enterprises to perform functions that had previously been monopolized by government; 2) contracting out the provision or management of public services or facilities to commercial enterprises indeed, there is a wide range of possible ways in which function can be organized and many examples of within public sector and public-private institutional forms, particularly in **infrastructure**; 3) 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 4) transferring responsibility for providing services from the public to the private sector through the divestiture of state-owned enterprises.

Deregulation. 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

Under appropriate conditions, all of these forms of decentralization can play important roles in broadening participation in political, economic and social activities in developing countries. Where it works effectively, decentralization helps alleviate the bottlenecks in decision making that are often caused by central government planning and control of important economic and social activities. Decentralization can help cut complex bureaucratic procedures and it can increase government officials' sensitivity to local conditions and needs. Moreover, decentralization can help national government ministries reach larger numbers of local areas with services; allow greater political representation for diverse political, ethnic, religious, and cultural groups in decision-making; and relieve top managers in central ministries of "routine" tasks to concentrate on policy. In some countries, decentralization may 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.

But decentralization is not a panacea, and it does have potential disadvantages. Decentralization 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.

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. Even program planners who do not see 'decentralization' as their primary motive must carefully analyze the types of decentralization already present in a country in order to tailor policy plans to existing structures.

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. 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. Central ministries often have crucial roles in promoting and sustaining decentralization by 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.

Compiled by

Dr. P.S Prasad, HoD.
Political Science, RTU