DECENTRALIZATION & POWER SHIFT

AN IMPERATIVE FOR GOOD GOVERNANCE
A Sourcebook on Decentralization Experiences in Asia, Volume I

Edited by ALEX B. BRILLANTES, JR. and NORA CUACHON

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The Sourcebook is a work in progress and the initial output of research by the staff of the Center for Local and Regional Governance (CLRG) and the Asian Resource Center for Decentralization (ARCD). The ARCD was launched as a culminating activity of the Second International Conference on Decentralization held on July 25-27, 2002 in Manila, Philippines.

This sourcebook is our modest contribution to the ongoing debates and discussions on decentralization, focusing on Asian experiences. It reviews various literature on decentralization (both print and those drawn from the Internet) which are properly attributed and cited in the reference section. It is envisioned to be an accompanying reader for Volume II, which will be a compilation of the conference papers presented during the Second International Conference on Decentralization.

We are grateful to the United Nations Development Programme (UNDP) Philippines and the Asia PARAGON Regional Governance Programme for supporting this initiative.

The opinions expressed by the authors do not necessarily reflect the views of the institutions they represent and the sponsoring institutions.

We welcome your comments and suggestions. E-mail us at clrg.ncpag@up.edu.ph or info@decentralization.ws.
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MESSAGE

Greetings!

I wish to congratulate the Asian Resource Center for Decentralization (ARCD), based at the Center for Local and Regional Governance of the National College of Public Administration and Governance, University of the Philippines for coming up with a sourcebook on decentralization focusing on Asian experiences. The sourcebook provides useful insights on the development in local governance sweeping across the Asian region.

The publication is another contribution to documents which celebrate the gains made by governments in Asia to bring government closer to the people. Indeed, local democracy is a motivating force that continues to influence the governments and populace in the region.

As a staunch supporter of local autonomy, having been involved in local governments most of my life, and having sponsored the passage of the Philippine Local Government Code of 1991, I welcome the sourcebook as a useful reference for students and practitioners hoping to gain good insights into Asian local governance.

I commend the Asian Resource Center for Decentralization under the leadership of Dr. Alex Brillantes, Jr. and the authors of the sourcebook for their valuable contribution to document decentralization experiences. I look forward to more publication and regional initiatives fostering local autonomy from the Center.

AQUILINO Q. PIMENTEL, JR.
Majority Leader
Senate, Republic of the Philippines
FOREWORD

THE UP NATIONAL COLLEGE OF PUBLIC ADMINISTRATION AND GOVERNANCE commemorates its 50th anniversary in 2002. As one of the centers of the college, the Center for Local and Regional Governance (CLRG) initiated two interrelated activities: the Second International Conference on Decentralization and the launching of the Asian Resource Center for Decentralization (ARCD).

The theme of the Second International Conference on Decentralization will be "Federalism: The Future of Decentralizing States?" This sourcebook, the second in the series of working papers produced by the ARCD, will be presented as part of the launching of the ARCD during the close of the Second International Conference on Decentralization.

The first volume of the sourcebook is based on a review of recent literature on local governance and decentralization experiences in 16 Asian countries. The second volume is a compilation of the papers presented during the Second International Conference on Decentralization. A number of partner institutions, like the United Nations Development Programme and the Asian PARAGON Regional Governance Programme, helped us identify the need for this sourcebook.

I congratulate the editors and authors of the sourcebook for their valuable inputs to this publication. I am certain that more research outputs and activities from ARCD will be forthcoming. Moreover, I am optimistic that the Center will continue to work with more partner institutions.

MA. CONCEPCION P. ALFILER
Dean
National College of Public Administration and Governance
PREFACE

IN RECENT YEARS, ONE OF THE MOST DYNAMIC TRENDS SWEEPING THE REGION and the rest of the world is the shifting of power from national governments to subnational governments, local governments, and local communities. This power shift has had tremendous implications not only upon the politico-administrative structures and processes in the affected levels of governance, but also, and perhaps more importantly, upon the paradigms, mindsets, and ways people think as a result of the changes.

Governments across Asia, influenced by their inherent history and culture, are at present faced with external and internal opportunities and challenges. These include rapid globalization, environmental change, telecommunications and information technology revolution, and an assertive and enlightened civil society. The varied experiences account for the diversity in which decentralization is manifested in each country.

Decentralization continues to play an important role in governance. Apart from empowering local governments and communities, it also helps address the so-called “democratic deficit” and therefore contributes to good governance. This is true in the case of the Philippines that has celebrated 10 years of devolution since the enactment of the 1991 Philippine Local Government Code. The decade of implementation have brought forth success stories, coined as “best practices,” which other local governments learn from. Despite the notable achievements in local empowerment, there have been calls for more improvements in the quest for local autonomy.

It is in the face of these issues and challenges that this sourcebook would be useful to students of comparative public administration as well as to those engaged in the field of political science. The country reports trace the roots of political reforms and identify strategies and measures leading to decentralization. This sourcebook hopes to contribute to available literature on decentralization, particularly on shedding light on Asian experiences. It brings together recent writings from various authors who have documented decentralization experiences of Asian countries.

The sourcebook is a compilation of research made by the staff of the Center for Local and Regional Governance of the National College of Public Administration and Governance, University of the Philippines, where the Asian Resource Center for Decentralization (ARCD) is based. The launching of ARCD capped the Second International Conference on Decentralization on July 25 to 27, 2002, in the Philippines with the theme “Federalism: The Future of Decentralizing States?” Speakers from Canada, Japan, Hungary, Australia, Nigeria, Cambodia, Indonesia, India, Germany, Mongolia, Namibia, South Africa, Spain, Switzerland, Thailand, Uganda, US and Vietnam joined local speakers to discuss country experiences on decentralization and federalism.

This first volume, which presents the background readings and research outputs of ARCD, must be read in companion with the papers presented during the Second International Conference on Decentralization, which comprise Volume II.
The first part of the Sourcebook on Decentralization in Asia (Volume I) discusses the basics of decentralization. In the introductory part, it establishes the growing interest in decentralization across Asia and introduced the framework for discussions. It then defines decentralization, with particular reference to the definition provided by the United Nations. A discussion on the interrelationship between “good governance” and decentralization follows, proceeded by the various types and forms of decentralization. This section also includes a brief discussion on the forms of decentralization, as implemented in the Philippine setting. The next section reviews the advantages and disadvantages of decentralization. It concludes with the factors that should be considered in designing strategies for decentralization.

The main part of Volume I, which we are releasing as part of our working papers series, are the country experiences. These were prepared by our staff at CLRO. We reviewed literature on the countries covered. For each country, selected national indicators were lifted from the World Bank’s World Development Indicators Database for the Year 2000. The first part gives a brief description of the geography, economy, and industry of the country. The second section briefly outlines the political system, followed by the description and structure of local governments. The succeeding part discusses the experiences on decentralization. Emerging issues and concerns and lessons learned are finally identified.

This sourcebook was conceptualized with ARCD’s various partner institutions. Special credit is due Mr. Terence Jones, resident representative, and Dr. Emmanuel Buendia, programme manager-governance, of the United Nations Development Programme; Senator Aquilino Pimentel Jr.; and the Asia PARAGON Regional Governance Programme for making the Sourcebook on Decentralization in Asia possible. We also collaborated with the UP Center for Women’s Studies, the Local Government Academy of the Department of the Interior and Local Government, the World Bank Institute, the Institute of Public Administration of Canada, the Forum of Federations, and the German Foundation for International Development for the conduct of the Second International Conference on Decentralization.

ALEX B. BRILLANTES JR.
Director
DECENTRALIZATION: AN OVERVIEW

The onset of the shift of emphasis from the central authority to local authority was observed in Asia, Latin America, and Africa in the 1970's (Rondinelli and Cheema, 1983). Three factors were cited for such transformations. First was the disillusionment with central planning and control of development activities; second was the clamor for new ways of managing development programs and projects brought about by emergence of growth-with-equity strategies; and third was the growing realization of the increasing difficulty to manage and plan development activities as society became more complex.

In Asian countries, the Asian Development Bank cites new factors that have emerged and accelerated the process of decentralization. First is globalization, which has increased the people's awareness and civic consciousness and created more opportunities for participation in governance. Second is the impact of economic and social changes in the last 20 years in the forms of liberalization, privatization, and market reforms which brought forth new demands on central governments, prompting them to reassess their limited capability to deliver services. Another is the growing demand for participation in governance. Lastly, the change in the perception of donors in support of better governance which has linked effective governance with local participation and autonomy has contributed to such reforms.

Decentralization is a long process and manifests itself in various forms. There are various mechanisms by which power or authority from the central government is transferred, in varying degrees, to local units or groups. For some countries, the impetus came principally from the central government's prerogative. It could also be triggered by the clamor from subnational, civic, and business groups.

While recognizing that each country has its unique experiences in the process toward decentralization, there are certain similarities still among countries with similar culture and related governments. In the same way, unique experiences enable the identification of useful realizations and lessons that bear on the success of the implementation of decentralization.

Since decentralization is not an end but a process leading to good governance, the framework for discussions is illustrated in Figure 1. The authors discuss structural and policy reforms implemented towards decentralization, manifested through four major types (political, administrative, economic/market and fiscal) and what changes have resulted in terms of improvements in local governance, delivery of services, allocation of fiscal resources, and promoting public participation.
DEFINING DECENTRALIZATION

Together with the clamor for democratic reforms, decentralization has flourished. In many countries, in fact, it has become the trend. Osborne and Gaebler, for instance, tells of how local governments in the United States have shifted from passively rowing (delivering services) to consciously steering (formulating policy decisions). Citing the involvement of the private sector in service delivery, the redesigning of electoral processes, the engagement of the community in the political process, and the constitution of local legislative bodies, they contend that the public obviously favors participatory democracy.

To illustrate how far decentralization has come, Shah contrasts the models of governance in the 20th and the 21st centuries (Table 1). The emergence of transition countries in the Eastern and Central Europe and former Soviet Union, as well as the political reforms in Latin American, African, and Asian countries, attest to the change in the character of governance from being highly centralized to being localized yet globalized.

<table>
<thead>
<tr>
<th>20th Century</th>
<th>21st Century</th>
</tr>
</thead>
<tbody>
<tr>
<td>• unitary</td>
<td>• federal/confederal</td>
</tr>
<tr>
<td>• centralized</td>
<td>• globalized and localized</td>
</tr>
<tr>
<td>• center manages</td>
<td>• center leads</td>
</tr>
<tr>
<td>• bureaucratic</td>
<td>• participatory</td>
</tr>
<tr>
<td>• command and control</td>
<td>• responsive and accountable</td>
</tr>
<tr>
<td>• internally dependent</td>
<td>• competitive</td>
</tr>
<tr>
<td>• closed and slow</td>
<td>• open and quick</td>
</tr>
<tr>
<td>• intolerance of risk</td>
<td>• freedom to fail/succeed</td>
</tr>
</tbody>
</table>

Source: Shah (1997)

Numerous authors have come up with definitions of decentralization, covering the various dimensions of the concept. Rondinelli and Cheema define it terms of how it is being implemented—"the transfer of planning, decision-making, or administrative authority from the central government to its field organizations, local administrative units, semi-autonomous and parastatal organizations, local governments or nongovernmental organizations."
The World Bank Decentralization Thematic Team defines decentralization as "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."

This sourcebook adopts the United Nations (UN) definition of decentralization:

Decentralisation refers to the "transfer of authority on a geographic basis whether by deconcentration (i.e., delegation) of administrative authority to field units of the same department or level of government or by the political devolution of authority to local government units or special statutory bodies."

This definition, Basta notes, emphasizes the two types of decentralization: administrative and political. It also subscribes to both intergovernmental processes (i.e., decentralization of governance between levels of government from federal/central to state/local) and, to a lesser extent, to deregulation or transfer of functions to private, civic and business groups.1

The United Nations Development Program (UNDP) initially adopted the term "decentralizing governance" because of its belief 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." The UNDP Management Development and Governance Division says that "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."

UNDP has instituted the Decentralized Governance Program (DGP).2 Its main goal 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, 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 Sustainable Human Development (SHD) goals."

THE KEY TO GOOD GOVERNANCE

"Decentralisation," according to the UNDP, "is the logical application of the core characteristics of good governance at the sub-national and local levels." Good governance, in turn, is one that "ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources."

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1 Two themes are involved in decentralisation: intergovernmental processes (transfer or sharing between levels of government from federal/central to state/local) and deregulation (decentralization from governments to market, quasi-market and non-governmental organizations).
2 UNDP has been supporting country level decentralisation initiatives for the past two decades through its 132 country offices serving more than 170 countries around the world.
The following are the interrelated and mutually reinforcing core characteristics of good governance, according to UNDP (italics supplied):

- Participatory, allowing all people access to decision-making process, either directly or through legitimate intermediate institutions that represent their interests.
- Cognizant of the rule of law, establishing and enforcing fair and impartial legal frameworks, particularly the laws on human rights.
- Transparent, providing direct accessibility to processes, institutions, and information to help the public understand and monitor government performance.
- Responsive, with institutions and processes trying to serve all stakeholders.
- Consensus-oriented, mediating differing interests to reach a consensus on policies and procedures that will serve the best interest of the group.
- Equitable, making available equal opportunities for all to improve or maintain their well-being.
- Effective and efficient, with processes and institutions giving results that meet needs while maximizing resources.
- Accountable, ensuring that decision-makers in government, the private sector, and civil society organizations have a sense of accountability to the public and to institutional stakeholders.
- Guided by a strategic vision, with leaders and their public adopting a broad and long-term perspective (with all its historical, cultural, and social complexities) on good governance and human development.

In recognition of the interrelationship between decentralization and good governance, UNDP has identified decentralization and support to local governance among its targets for assistance and building of core competencies. The Institute for Housing and Urban Development Studies (2002) also recognizes decentralization as an instrument for promoting good governance at the local level.

In an article, Brillantes points out the strong link between poverty reduction and public sector reform within the context of good governance (Figure 2). According to him, "Good governance is a key to poverty reduction. And a major mechanism to bring about good governance is through public sector reform. The suggested relationships between and among good governance, public sector reform and good governance are more correlational rather than causal."

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3 This insight was derived from the comments of Dr. Clay Wescott during the Conference on Poverty, Growth and the Role of Institutions held at the Asian Development Bank, 10-12 October 2001.
The schematic framework presents decentralization as one of the processes towards public sector reforms which bears on the indicators of good governance, such as accountability, transparency, predictability, and continuity. Taken together, the implementation of public sector reforms and good governance determine the outcome of initiatives on poverty reduction.

**THE FORMS OF DECENTRALIZATION**

According to the Synthesis Report from the OECD/DAC Expert Group in Aid Evaluation in 1997, 63 out of the 75 developing countries which they studied had made attempts to decentralize through various forms in 1997.

This sourcebook identifies four major types of decentralization according to classifications made in UNDP and World Bank articles. These are political, administrative, fiscal, and market decentralization.

**Political**

Political decentralization is the transfer of authority to a subnational body. The formulation and implementation of policies are made more participatory through the involvement of more stakeholders.

At the outset, this "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," according to the World Bank Decentralization Thematic Team.
Political decentralization is manifested through devolution. The World Bank defines devolution as the "transfer of authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status." Tabunda and Galang explain that the nature of power transfer is political and the approach is territorial or areal. In a devolved system, the World Bank says, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions.

Administrative

Administrative decentralization refers to the redistribution of authority and responsibility for the planning, financing, and management of certain public functions—from the central government and its agencies to field units, subordinate levels of government, semi-autonomous public corporations, or area-wide or regional authorities (World Bank Thematic Team, undated).

Administrative decentralization is manifested through deconcentration and delegation.

Deconcentration involves spreading the decision-making authority and financial and management responsibilities across different levels of the central government. Used most frequently in unitary states, it is considered the weakest form of decentralization because it merely shifts responsibilities from one central government official, such as one in the capital city, to another central government official, such as one who works in the regions. Under this setup, local or field administration is done only under the supervision of central government ministries.

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 is a more extensive form of decentralization. It involves the transfer of responsibility for decision-making and administration of public functions from the central government to semi-autonomous organizations that are not wholly controlled by the central government, but are 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, and special project implementation units. These organizations usually 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.

Fiscal

Fiscal decentralization transfers two things to local governments and private organizations: funds, to deliver decentralized functions; and revenue-generating power and authority, to decide on expenditures.
The World Bank Decentralization Thematic Team lists five 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.

Economic

Economic or market decentralization is the passing over to the private sector of the functions exclusively performed by government. It is manifested through privatization and deregulation. This type of decentralization promotes the engagement of businesses, community groups, cooperatives, private voluntary associations, and other non-government organizations.

Some examples of privatization measures are the contracting out of the provision and management of public services to commercial enterprises, the transfer of service provision through divestment of state-owned enterprises, and public-private ventures such as the build-operate-transfer scheme (especially undertaken in the infrastructure sector.)

Deregulation reduces the legal constraints on the private sector in their delivery of services previously monopolized by the government. In effect, it allows competition among private suppliers in the delivery of services held solely by the government or regulated monopolies in the past.

The major classifications discussed above reveal that while varying degrees of authority, power, and responsibilities are transferred or delegated to lower government units, quasi-independent government organizations, or the private sector, there is an assumption that the central government still wields a range of power and authority. Figure 3 summarizes the forms of decentralization.

<table>
<thead>
<tr>
<th>DECENTRALIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political</strong></td>
</tr>
<tr>
<td>• Devolution</td>
</tr>
<tr>
<td><strong>Administrative</strong></td>
</tr>
<tr>
<td>• Deconcentration</td>
</tr>
<tr>
<td>• Delegation</td>
</tr>
<tr>
<td><strong>Fiscal</strong></td>
</tr>
<tr>
<td><strong>Economic or Market</strong></td>
</tr>
<tr>
<td>• Privatization</td>
</tr>
<tr>
<td>• Deregulation</td>
</tr>
</tbody>
</table>
DECENTRALIZATION IN THE PHILIPPINES

Brillantes (2002) has identified three major forms of decentralization at work in the Philippines which take off from the Philippine politico-administrative system and the 1991 Philippine Local Government Code.

Deconcentration involves the transfer of functions to lower levels of administrative units designated by the central office. Brillantes sees it as “essentially a management tool to decongest the central office and spare it from having to act on matters, including routine and administrative matters, that may best be addressed at the lower levels. However, final and ‘substantive’ authority still rests in the central authorities”. Deconcentration is mostly administrative in nature. It was first principally practiced in 1972 when the Marcos government adopted the Integrated Reorganization Plan (IRP) to reorganize Philippine administrative system. It divided the country into 11 administrative regions where branch offices of government agencies were established.

Devolution is referred to as the transfer of powers and authorities to lower level political or local government units; hence it is political in nature. Local units to which powers and authorities are transferred should have an elected local executive, elected local legislative body that passes laws and ordinances, specific taxing powers, and jurisdiction over a defined geographical area.

Debureaucratization, according to Brillantes, “involves the transfer of powers and authorities to units not within the purview of government.” These include NGOs, POs, and the private sector.

The Decentralized Governance Programme of UNDP has come up with a matrix identifying the form of decentralization that is manifested when political, economic or administrative responsibilities are transferred according to any of the four (4) subunits (autonomous lower-level units, semi-autonomous lower-level units, subordinate lower-level units, and external units).

Table 2 shows that devolution is the form of decentralization that is manifested when political, economic or administrative functions are transferred to autonomous subunits, while delegation is implemented when the power and functions are transferred to semi-autonomous subunits. When the aspect of governance transferred to subordinate subunits is political, it is directing; the arrangement is allocating when it is economic and tasking when it is administrative. Similarly, when the aspect of governance transferred to external units, such as NGOs or business groups, is political it is deregulation, privatization when it is economic and contracting when it is administrative.
Table 2. DIFFERENT ARRANGEMENTS OF DECENTRALIZATION

<table>
<thead>
<tr>
<th>Type of Unit to which Authority is Transferred</th>
<th>Aspect of Governance Transferred or Shared</th>
<th>Generic Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autonomous lower-level units</td>
<td>Political</td>
<td>Economic or Financial Resource Management</td>
</tr>
<tr>
<td>Semi-autonomous lower-level units</td>
<td>Devolution</td>
<td>Devolution</td>
</tr>
<tr>
<td>Sub-ordinate lower-level units or sub-units</td>
<td>Delegation</td>
<td>Delegation</td>
</tr>
<tr>
<td>External (non-governmental) units at any level</td>
<td>Directing</td>
<td>Allocating</td>
</tr>
<tr>
<td></td>
<td>Deregulation</td>
<td>Privatisation</td>
</tr>
</tbody>
</table>

Source: Decentralized Governance Program of UNDP, 1997

ADVANTAGES AND DISADVANTAGES

In its 1997 World Development Report, the World Bank referred to the increasing demand for decentralisation as “part of the broader process of liberalisation, privatisation and other market reforms in many countries.” It pointed out three major developments which triggered decentralisation. First, the minimum size of self-sufficient government has declined. With the advent of technology and new demands from citizens, producers, and consumers, some of the advantages that kept countries, regions and provinces working together under a central government have become less important. Second, political changes have given voice to local demands. The collapse of centralized authorities and changes in political regimes has benefited regions and subnational governments. Lastly, countries often turn to local and regional governments when the central government has persistently failed to provide essential services.

Advantages

The World Bank Decentralization Thematic Team cites the following advantages of decentralization:

- it helps alleviate bottlenecks in decision-making that are often caused by central government planning and control of important economic and social activities;
- it can help cut complex bureaucratic procedures and it can increase government officials’ sensitivity to local conditions and needs;
- it can help national government ministries reach larger numbers of local areas with services;
- it allows greater political representation for diverse political, ethnic, religious, and cultural groups in decision-making;
- it can relieve top managers in central ministries of “routine” tasks to concentrate on policy;
in some countries, it 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;

it may lead to more creative, innovative, and responsive programs by allowing local "experimentation";

it can increase political stability and national unity by allowing citizens to better control public programs at the local level.

On the economic front, the World Bank Decentralization Thematic Team says decentralization makes way for more efficient allocations. They explained that a level of government that is closer to its constituency is more responsive, thus, allocations will correspond to local demand. In addition, they mentioned that there is greater willingness on the part of the people to pay for services tailored according to their priorities, especially if they have been involved in the decision-making process with regard to delivering the services. Decentralization likewise improves the "competitiveness" of governments and enhance innovation, hence "the likelihood that they will act to satisfy the wishes of citizens."

Basta (1998) listed several arguments for decentralization:

- enhancement of democracy, particularly the participation of grass-root groups;
- protection of freedom and human rights (vertical check-and-balance);
- increase in efficiency through delegation of responsibility;
- higher quality of services; and
- enhancement of social and economic development.

Osborne and Gaebler, for their part, cites decentralized institutions as:

- far more flexible and thus can respond quickly to changing circumstances and customers' needs;
- more effective and more innovative in that frontline workers know more of what is actually happening in local situations and thus could provide the best solutions; and
- able to generate higher morale, more commitment, and greater productivity.

Disadvantages

The World Bank Decentralization Thematic Team acknowledges that "decentralization may not always be efficient, especially for standardized, routine, network-based services." It may, according to them, lead to:

- loss of central government's control over scarce financial resources;
- less efficient and less effective delivery of services because of weak administrative or technical capacity at local levels;
- transfer of administrative responsibilities to local levels without adequate financial resources, making equitable distribution or provision of services more difficult;
- more complex system of coordinating national policies, where functions will most likely be captured by the local elite; and
- distrust between public and private sectors that may undermine cooperation at the local level.
The World Bank cautioned that decentralization will fail when it is not the result of any carefully designed sequence of reforms but has “occurred in a politically volatile environment in which the level of trust is low and policymakers respond unsystematically to emerging demands from below.” Among its potential detrimental effects are the loss of macroeconomic control, regional disparities in service provision, and misallocation of resources.

**Factors That Influence Decentralization**

When designing strategies for decentralization, legislators and planners should consider not just the advantages and drawbacks of decentralization but also a country’s political readiness, central and local capability, level of structures, level of local empowerment, among other things. The World Bank Decentralization Thematic Team sets the conditions for a successful decentralization:

- The decentralization framework must ensure that the local government’s financing and fiscal authority matches its functions and its responsibilities of providing services. This way, local politicians can bear the costs of their decisions and deliver on their promises.
- For decisions to be meaningful, the local community must be informed about the costs of services, service delivery options involved, available resources and its sources.
- A mechanism must be installed whereby the community can express its preferences in a way that is binding on the politicians. This will give the people a credible incentive to participate.
- There must be a system of accountability that relies on public and transparent information. This would enable the community to effectively monitor and react to the performance of the local government. Politicians and local officials will then have an incentive to be responsive.
- The instruments of decentralization—the legal and institutional framework, the structure of service delivery responsibilities, and the intergovernmental fiscal system—are designed to support the political objectives.

In designing the mechanisms of decentralization, 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. The World Bank Decentralization Thematic Team advises planners to determine the lowest organizational level of government at which functions can be carried out efficiently and effectively. For functions that do not have to be provided by government, the most appropriate forms of privatization should be determined.

For government to be effective and efficient, it should attain an appropriate balance of centralization and decentralization. The role of central ministries in promoting and sustaining decentralization is to develop appropriate and effective national policies and regulations for decentralization and to strengthen local institutional capacity to assume responsibility for new functions. The World Bank Decentralization Thematic Team maintains that “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.”
In assisting planners, the World Bank refers to the principle of subsidiarity. This principle maintains that the provision of public goods and services should be carried out by the lowest level of government that can fully capture the costs and benefits.

Table 3 presents the characteristics of public goods that are preferably delivered by the national and local governments.

<table>
<thead>
<tr>
<th>Level of public provision</th>
<th>Demand-side factors</th>
<th>Supply-side factors</th>
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<tbody>
<tr>
<td>Local</td>
<td>Variation in local taste (street lighting, zoning)</td>
<td>Potential for competition between jurisdictions (police protection, road maintenance)</td>
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<td>Common property (urban roads, waste disposal)</td>
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<tr>
<td>National</td>
<td>Spatial consumption externalities (control of epidemics)</td>
<td>Economies of scale (defense)</td>
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<td>Equity concerns (minimum standards for primary education)</td>
<td>Cross-jurisdictional externalities (inter-urban highways)</td>
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Source: World Bank, 1997

Basta has identified five important factors that influence decentralization. First is the legal tradition underpinning the system. English local authorities, for example, are vested with their own functions and are recognized as responsible bodies, while the police and his staff in the traditional French system remain under the direct disciplinary control of the central government.

Second is institutional design. It is easier to decentralize under a system where the most important central powers are vested on the legislative body. This is because the legislative body’s decisions have to be ratified through a referendum, as opposed to the setup where central powers are concentrated with the executive or head of state. In addition, decentralization is facilitated if there is a legislature composed of representatives of local authorities (second chamber to promote local interests) rather than a body of nationally elected representatives.

Third is which body decides on the financial allocation. If it is the central authority that makes decisions, then a centralized setup is likely to be given priority.

The fourth factor is the competence of the authorities in decision-making and the technical and financial capability of the authorities to accomplish reassigned tasks.

The level of a country’s or a region’s economic development is a factor, too. Often, the low-income economies are in favor of centralization. Only when income rises is there propensity for transferring responsibility to lower units of authority.