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DECENTRALIZATION AND LOCAL AUTONOMY FOR PARTICIPATORY DEMOCRACY

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1. THE GLOBALIZATION OF DEMOCRATIC DECENTRALIZATION

During the last decade, the winds of democratic movements and reforms have achieved global scale, and democratic decentralization has spread worldwide. In every continent most governments have embraced decentralization programmes. “ *Some 95 percent of democracies now have elected subnational governments, and countries everywhere—large and small, rich and poor – are devolving political, fiscal, and administrative powers to subnational tiers of government.*”¹ A survey of 27 Commonwealths of Independent States (CIS) found nine to be keen decentralizers, seven to be uncertain decentralizers, eight to be non-decentralizers, and three to be decentralizers by necessity.² During the last 10 years, post communist Russia has seen substantial decentralization to the regions partly to forestall local demands to set up separate independent republics. “*By conventional measures fiscal decentralization in Russia has been evolving quite successfully in the 90s. Consolidated regional budgets are now responsible for about a half of total budget spending, while their share amounted to about 15% in the late 80s*”³. Many Latin American countries have undergone democratic reforms and most of them have carried out democratic decentralization programmes: from large countries such as Argentina, Brazil and Mexico, to smaller states such as Venezuela and Bolivia. In Africa democratic decentralization has been undertaken in Ethiopia, Uganda, Mali, South Africa, Togo, Ghana, among others.

This paper intends to review this global phenomenon of democratic decentralization and to identify variations in practices, experiences, and lessons. The review will cover forms (types) of decentralization; the legal framework for decentralized governance; redistribution of functions and resources between central and local governments; relationships between local governments and NGOs; enhancement of local autonomy capacity; local autonomy and checks and balances between central and local governments; the role of community based organizations; decentralization and citizen participation; decentralization and service delivery; innovations in decentralized governance; and good practices and lessons learned.

¹ World Bank, “Decentralization: Rethinking Government” Washington, DC.: World Bank.

² World Bank, Decentralization in the Transition economies: challenges and the Road Ahead, Poverty Reduction unit, Europe and Central Asia, June 14, 2001

³ Lev Freinkman and Plamen Yossifov, Decentralization in Regional Fiscal Systems in Russia: Trends and links to Economic Performance. World Bank (ECSPE). Washington, DC, 1998 page 3

2. DECENTRALIZATION, AUTONOMY AND PARTICIPATORY DEMOCRACY

Decentralization involves the transfer of political, administrative and fiscal authority from the central government to subnational governments and authorities. The transfer takes place down a hierarchy of levels of subnational authorities. The most typical being three tiers of center, state and local subnational governments. Three forms of decentralization have been identified: decentralization by deconcentration, decentralization by delegation, and decentralization by devolution⁴.

2.1 Decentralization by Deconcentration to Lower Field Offices

Decentralization by deconcentration concerns the transfer of administrative functions, roles and responsibilities within public administration networks from the national to lower levels. It is from national administrators to their field staff and locations. It may be sector specific such as the decentralization of agriculture services by deconcentration. In Colombia in 1993 Rural Development Municipal Councils were approved and were formally open to participation of peasants. However, “as a result of the reconstruction of the Ministry of Agriculture and Rural Development, the *deconcentration* of state services were significant, but the *delegation* and *devolution* of powers to the actors in development were limited”⁵. In Mexico, the Agricultural sector was decentralized in 1995 and the Ministry of Agriculture was restructured giving it novel responsibility of rural development. “The major form of decentralization regarding rural development was the *deconcentration* of state services followed by a substantial *delegation* of powers to public entities and by *devolution* of powers to subnational entities”⁶. In Togo the government created a Ministry of Decentralization and passed decentralization and constitutional reform laws in 1992. The Ministry of Agriculture was restructured in 1997. “The principal form of decentralization seems to be an extensive *deconcentration* of central state services followed by limited *delegation* to semi-autonomous entities”⁷. In

⁴ Rodinneli and Cheema,

⁵ Jean Bonnel, FAO case studies: Republic of Colombia. Emphasis mine.

⁶ Jean Bonnel, FAO case studies: United states of Mexico. Emphasis mine.

⁷ Jean Bonnel, FAO case studies: Republic of Togo. Emphasis mine.

Mali since 1993, “decentralization involves the creation of new subnational entities (region, districts, townships) freely governed by elected councils, and the transfer of certain decision-making powers to the regional level”⁸. This is clearly decentralization by devolution.

2.2 Decentralization by Delegation to Semi-Autonomous Agencies.

Decentralization by delegation involves the transfer of power and authority to semi-autonomous bodies, which may be located at the national level or within the territory of a subnational government. Privatization is also a form of delegation in which the functions are taken out of government to the private sector and government control severed. In delegating to semi-autonomous bodies, the functions remain in the public sector, but government is freed from involvement in day-to-day operations of the semi-autonomous body. Government influences the policy of semi-autonomous bodies through control of the governing Board of Directors. The term decentralization denotes a downward movement from the top. Even though delegation to semi-autonomous bodies located at the national level may appear to be horizontal transfer, these bodies remain in hierarchical relations with the controlling or parent Ministry. Decentralization to semi-autonomous bodies located in the territory of subnational governments is more clearly seen as a process of hierarchic descent. Indeed Tim Besley considers the standard decentralization model to be a hierarchic one.

“At the heart of any scheme of decentralization is the transfer of power from a high to a lower tier of government. Here, tiers are to be understood hierarchically. At the top is the notion of a national government whose jurisdiction is bound by limits of a well-defined nation state. Below that may be multiple tiers”⁹.

2.3 Decentralization by Devolution to Subnational Governments.

The defining characteristic of decentralization by devolution is that the transferred power should include political power, not just administrative and economic power directed by central governments, namely, deconcentration. The evidence for political decentralization

⁸ Jean Bonnel, FAO case studies: Republic of Mali

⁹ Tim Besley, “Notes on Different Forms of Decentralization”, California University Task Force on Decentralization, Initiative for Policy Dialogue (IDP) Working Paper Series. Emphasis his.

is that the people in the subnational territory democratically elect the subnational governing entity. The subnational government is a legal personality that can sue and be sued and controls its finances.

“Decentralization entails the transfer of political, fiscal and administrative powers to subnational units of government. A government has not decentralized unless the country contains an ‘autonomous subnational elected government capable of taking binding decisions in at least some policy area.’ Decentralization may involve bringing such governments into existence. Or it may consist in expanding the resources and responsibilities of existing subnational governments. The definition encompasses many variations. India, for example, is a federal state, but the central government has considerable power over subnational governments. Political power in China is officially centralized, but subnational units have substantial de facto autonomy in what can be described as ‘decentralization Chinese style’”¹⁰

2.4 Mixing Forms of Decentralization and Globalization.

While decentralization by delegation and by deconcentration may be found in autocratic and authoritarian regimes, decentralization by devolution tends to be linked with democratic, constitutional and good governance reforms. Decentralization by devolution may be regarded a higher form of decentralization which usually coexists with deconcentration and delegation at the same time. In most democratic countries there will be a diversity of semi-autonomous agencies exercising delegated authority, subnational governments exercising devolved authority and sectoral ministries with deconcentrated authority at the regional levels. This implies that governments have various options, which they should seek to maximize by offering a menu of different combinations of forms and types of decentralization within the democratic decentralization modality.

2.5 The Primary Unit of Decentralization.

Since there are several tiers of subnational units of government, it is very important to specify the primary unit of decentralization. In Uganda there are district, county, sub county and village levels of governance. It is the district, which is the primary unit of

¹⁰ World Bank, Rethinking Decentralization pp.108

decentralization. In India the levels of states are the primary unit of decentralization. In China and in Russia it is the regional level. In large countries such as India, China and Russia, the primary unit of decentralization may be as large or larger than many medium sized countries. These levels may be so remote to citizen settlements as to be still highly centralized governing bodies. True decentralization may require transfers of power further down. Lev Freinkman and Plamen Yossifov are not sure if the transfer of power to the regional subnational primary unit of decentralization has brought benefits to lower levels in the regions especially, the municipalities.

“ However, given the relatively large size of most Russia regions, it is not clear if devolution of functions from the center to the regions is sufficient for enjoying all decentralization gains mentioned above. If most resources and functions are concentrated within regional governments and not delegated to the local level, there is a risk that the single centralized state would be replaced by numerous centralized entities of small sizes that could neither exploit informational advantages nor be seriously influenced by competitive pressures. In the latter case, another stage of the decentralization process would be required to force regions to share more resources with local governments ”¹¹.

3. FRAMEWORKS CONDUCTIVE TO DEMOCRATIC DECENTRALIZATION.

3.1 Political Will for Democratic Decentralization

Even if there are legislative provisions for the establishment of decentralized governance, they will remain unimplemented unless there is a political elite, or leadership, that has very high commitment and belief in the goodness and benefits of decentralized governance. This political commitment, or political will, should be strong, pervasive and enduring. After thirty years (1962-1986) of autocratic and over centralized regimes in Uganda, there was widespread belief among elites and the population that if absolute national government powers could be dismantled and dispersed to many subnational

¹¹ Lev Freinkman and Plamen Yossifov, Decentralization in Regional Fiscal Systems in Russia: Trends and links to Economic Performance. World Bank (ECSPE). Washington, DC, 1998, pp.3

centers, then autocracy would end. The emerging ruling elites (1986) believed in this with zealous commitment. This political will was essential to sustain implementation of the decentralization programmes during the next decade in the face of stiff opposition and resistance from central ministries who were losing power to subnational governments.

3.2 Public Policy Framework Conducive to Decentralized Governance

The subnational demands for self-determination, such those of nationalists in Scotland and Wales became a major political issue for British politics. This gave rise to the government policy of devolution of power to Scotland and Wales. In large states such as USA, Nigeria, India, Brazil, China, and Russia bringing government close to the people is a critical issue of governance. By creating political arenas close to the citizens, direct political participation is enhanced and the scope of popular democracy is increased.

Decentralization issues, needs and problems should be systematically assessed and evaluated by a taskforce or a study commission leading to policy proposals and recommendations. The taskforce or study commission would collect information and views from subnational governments, interest groups and organizations with a stake in decentralized governance. They would use several participatory methodologies that promote grassroots involvement in decision-making. Such sound policy analysis is the essential foundation for public policy frameworks that will enable the government to formulate and design feasible and sustainable decentralization policies and programmes. These proposals should be subjected to a second round of bottom stakeholder consultations and participation. It is also a wise strategy to involve donors at this design stage, as they are likely to be the main source of funding that will sustain the decentralization programmes. The policy should clearly specify what powers are being transferred, to what primary unit or tier of government, and with what resources. The President of the country would lead the adoption of the policy by cabinet and extract promises from line ministries that they will not obstruct the transfer of power to subnational entities. In particular, it is the Ministry of Local Government that tends to resist the changes and many governments have found a way around it by setting up semi-autonomous Decentralization Secretariats.

3.3 Legislative Frameworks Conducive to Decentralized Governance.

In the past, governments have carried out decentralization policies and programmes without creating new decentralization legislation. During the last 10 years, Spain has undertaken substantial decentralization activities without explicit policies and laws for that purpose. China is another example, where decentralization Chinese style has been undertaken on the quiet without ringing bells about an explicit decentralization policy and legal framework. As has been pointed out above, a country can have clearly and explicitly formulated decentralization policies and legal frameworks but with very limited implementation.

The risks of decentralization by government policies without legislative frameworks are that governments can withdraw transferred powers any time. And such transfers and withdrawals can be erratic and disruptive, leaving subnational governments unable to plan on the basis of uncertain expectations. Getting parliaments to enact legislation to transfer powers to subnational governments gives decentralization a more stable environment. Moreover, Acts of Parliaments confer legal personality to subnational governments to sue and be sued and to borrow money from financial institutions. The central government can still withdraw the power but this would have to involve parliament repealing the legislation and reasons would have to be given in a transparent process.

Local government legislative frameworks clarify and specify transferred powers and resources; they define what powers are the exclusive domains of each level of government and which functions are shared between tiers of government. The frameworks define legal and illegal conduct; likely rewards and punishments to be meted out in the courts of law and may create new institutions to maintain checks and balances, accountability and transparency at the local government level.

In the case of gross failure or collapse of a local government, the legal and constitutional frameworks provide for the central government to take over the subnational government for a specified period, during which the local government may be resuscitated or new elections conducted for a new leadership with renewed mandate.

3.4 Constitutional Frameworks Conducive to Decentralized Governance

The greatest protection of transferred powers to subnational governments is when provisions are entrenched in the Constitution. Constitutional amendments may take place after five years or 10 years from the time of adoption. Even then, the required procedures may be lengthy and protracted. Such rigid entrenchment of decentralization constitutional provisions may be detrimental to the consolidation and smooth operation of decentralization if the provision is inefficient and ineffective but cannot be changed easily. Society may not be protected from the harmful effects of the provision. A constitution in country A has a provision that the Central government may second staff to subnational governments only if they request or if they concur to a central government offer. Ninety percent (90%) of the expenditures by subnational governments come from the central government and there is widespread corruption and misuse of funds. The central government is now pursuing a constitutional amendment to repeal the provision in order to appoint accounting finance officers but the process is slow, allowing scarce resources to be squandered by subnational governments.

3.5 Democratization Frameworks Conducive to Decentralized Governance

In Uganda, a democratic struggle (1980-1986) resulted in the overthrow of an autocratic regime. This put an end to 20 years succession of autocratic regimes (1966-1986). The new leaders set a commission on Local Government (1988). In 1989-92 the government set up a Public Service Review and Reorganization commission. Finally, a Constitutional Commission was set up to study on the transition to democracy. These broad democratization reforms provided a conducive setting for proposals for decentralizing government to the subnational level in order to bring government closer to the people. It is inconceivable that decentralized governance can be considered in a country in which the national level is non-democratic and dominated by absolutism and authoritarianism. Democratization frameworks are the precondition for the introduction of democratic decentralization at subnational level. This is one side of the concept of political will and political commitment as the cornerstones of successful decentralized governance. It means that rule of law and changing leaders through the electoral vote have become the accepted norms in the culture and the society.

3.6 Institutional Frameworks Conducive to Decentralized Governance

There are several institutions, which are vital to the success of decentralized governance at the subnational level, such as a strong National Ministry of Local Government with a redefined mandate of guiding decentralization policy and programmes. If it is felt that the National Ministry of Local Government is likely to resist transfer of responsibilities to subnational level, then a semi-autonomous body, like a Decentralization Secretariat may be advisable. The formulas and procedures for fiscal relations between the center and subnational government are so complex and technical that a local government finance commission may have to be set up at the national level to set up an appropriate technical financial management and accounting system. The institutions of the Auditor General, the National Planning Agency, the Inspectorate of Government, and the Directorate of Public Personnel have to develop capacity to ensure effective planning and accountability of decentralized subnational governments. These institutions, which promote checks and balances, separation of powers, and avoidance of conflict of interest at the national level are also required at the subnational level.

4. REDISTRIBUTION OF FUNCTIONS AND RESOURCES BETWEEN LOCAL AND CENTRAL GOVERNMENTS

4.1 Symmetrical and Asymmetrical Decentralization of Powers and Responsibilities

In the design of decentralization, a distinction is made between symmetrical and asymmetrical decentralization. In symmetrical decentralization an attempt is made to mirror and reproduce national governance institutions at the subnational level as if the lower unit (area) was a microcosm of the national government (country). The subnational elected body is conceived equivalent of parliament at the national level, the Chief Administrative officer is equated to the head of the National public Service, and the subnational court is the equivalent of the national Supreme Court. The three organs of the subnational government are then expected to follow the rules of separation of powers and the mechanism of checks and balances. It is then assumed that these organs at the subnational level should operate without control and interference from the central government. Under this model of symmetrical decentralization it may be provided that

policy and monitoring would be left at the central government and operations transferred to the subnational government.

The design fault here is to assume that the central government at the national level is a sum total of the subnational units, like $2 + 2 = 4$. The reality is that the national level is a new creature that obeys the rule that $2 + 2$ may be equal to 5. There are many dynamics that operate at the national level that do not exist at the subnational level (macroeconomic management, foreign affairs, and dealing with national inequality through economic redistribution). The chemistry and environment at the national and subnational levels differ and the analogy of a microcosm is misleading.

Reviewing of literature on decentralization from many countries, leads to the conclusion that asymmetrical decentralization is more effective than symmetrical decentralization. Certain government functions are better done at the center and others may be better done at the subnational level. Stabilization of an economy and economic redistribution is better done at the center. It would be a mistake to decentralize such functions. Similarly, revenue collection and expenditure allocations are best done at the center with panoramic view of the whole economy. Thus from a theoretical point of view the idea of decentralizing government holistically to subnational government units is a faulty decentralization design and leads to transfer of inappropriate functions to the subnational governments for which they are unable to undertake. Many developing countries are struggling to establish institutions of democratic governance at national level, and to replicate these momentous endeavors at the subnational level is too much overload and a recipe for chaos and failure. It is advisable to transfer powers and responsibilities to the subnational governments in morsels that they can chew and gradually increase the range and depth of functions as their “molars” mature (incremental decentralization).

In many countries symmetrical and non-incremental decentralization is a result of political pressure. Even when country X planned to begin with financial decentralization to only 13 Districts out of 56, this gradualist piloting and experimental approach was abandoned because of political demands from the other Districts not to be left behind.

Financial decentralization has been applied to all Districts when they were not ready in terms of planning, budgeting, and accounting capacities and systems and procedures.

It is therefore essential to specify functions exclusive to the national level, functions exclusive to the subnational level, and those shared between the two levels. If the provision of secondary and primary education were to be allocated to the subnational government, it may be wise for the central government to retain upholding of educational standards and such highly technical activities as curriculum design and development. If provisions of primary health care and the running of health facilities were allocated to subnational governments, then it may be rational for the central government to keep the responsibility for the supply of drugs, the training and certification of professional staff, and the monitoring of health provision standards and quality of service. The danger of shared services is that the parties may shirk responsibility and pass blame for inaction on each other. The risk of exclusive functions allocated to the subnational level is that they may have no resources and capacity to perform them. All these elements must be considered in determining the sharing of responsibilities between the different levels (tiers) of government.

4.2 The Share of Resources between the Central Government and Subnational Governments

Share of expenditure and revenue collection

The most commonly used measure of the extent of decentralization is the share of expenditure and revenue collection between subnational governments and the central government. This can be expressed as percentage of GDP or total government budget. If for example, total subnational government expenditure is 10%, this implies that most of government activities are at the center. If after decentralization this percentage were to rise to say 40% percent, then subnational governments are significantly having a high share in the delivery of services to the population. The second measure is the percentage of own revenue and central government transfers. If subnational governments own revenue accounts for only 10% of expenditure and 90% come from central government, then the subnational governments are financially dependent on the central government

and their sphere of independent action may be highly restricted. Decentralization may be nominal rather than real. It is therefore important in analyzing the degree of decentralization to determine the location of subnational governments on this scale of financial independence and financial dependence on the central government.

4.3 A Fourfold Typology of Financial Dependence or Independence

First, let us begin with the case of Zero decentralization, the subnational units are not involved in revenue collection, and therefore contribute zero to the expenditures incurred in the region. This may be case in which 100% revenues are collected from customs import and export taxes. The majority of peasants engage in subsistence agriculture with a limited tax base. Second, an improvement on this situation is where the subnational government is able to collect own revenue to finance 10% of local expenditure while 90% of subnational expenditure consists of transfers from the central government. This is the situation in Uganda. The central government transfers consist of unconditional grants, conditional grants and equalization grants. Third, in China before the reforms of 1994, provinces were collecting 90% of all revenue, retaining a large percentage for own expenditure and remitting to the central government about 10% for running central government services. The central government was unable to carry out its responsibilities such as financial macroeconomic stabilization and harmonization of inter-province relations and spillovers, and mitigation of regional economic imbalances and inequality. Fourth, under recent reforms (since 1994), Chinese provinces still collect most of the revenue, but the bulk is remitted to the central Government to determine the expenditure transfers to all the provinces of China¹².

4.4 Need for Analysis of the Revenue and Expenditure Context

It must be noted that measures of expenditure and revenue shares can be very misleading. It is vital to interpret their meaning in terms of analysis of the contingent factor. Take the Uganda case: Most of the central revenues come from taxes on exports, on remittances from nationals abroad, and donors (60% of the budget comes from donors to finance the development part of the budget). The dominant economy of the subnational government

¹² Kiril Tochkov, “ Interregional Risk Sharing and Fiscal Decentralization in China”, New York: Department of Economics, Binghamton University(SUNY), unpublished.
www1.worldbank.org/wbiep/decentralization/listings.htm

is subsistence peasant agriculture. To expect the subnational government to raise own funds is not practical. It is an unrealistic expectation. To imagine that the central government can meet 90% of subnational expenditure without guidance and conditions is also unrealistic. And so the level of autonomy that they may exercise is circumscribed by these contingent factors. Yet for them to enjoy even 10% autonomy is better than zero decentralization.

5. RELATIONS BETWEEN LOCAL GOVERNMENTS AND NGOS (THE ROLE OF COMMUNITY BASED ORGANIZATIONS)

The role of civil society as one of the pillars of democracy (parliament, civil service, the judiciary, the multiparty system, regular elections, and independent and free press/media at the decentralized subnational level is similar as at the national level: to mobilize people into voluntary organizations in which they may achieve their objectives without waiting for the government, to act as watchdogs on the appropriateness of government policies and programmes, to act as subcontractors of local government service provision. Since the classic study of **Democracy in America** by the French scholar, Alex de Tocqueville¹³ and the recent study of democracy in Italy by Robert Putman, **Making Democracy Work**¹⁴, it is now recognized that building sustainable democracy depends on the existence of many vibrant civil society organizations. These voluntary organizations mobilize people at the grassroots and provide avenues for grassroots participation, self-help, and self-governance. They also act as buffers between the citizens and the state and can be effective watchdogs of citizens' rights and needs.

A mushrooming of civil society organizations both international and domestic has followed the demise of autocracy in most African countries. Since in most post conflict societies such as Uganda, Rwanda and Somalia, there has occurred various levels of state collapse, NGO's have tended to fill the vacuum. For example, shortly after the collapse of the Kigali regime in 1994, Rwanda was immediately flooded with about 150 NGO's. About 50 of them turned out to be bogus and lost their registration. But clearly a good

¹³ Alex de Tocqueville, **Democracy in America**. J.P. Meyer (ED) Garden City, NY: Anchor Books, 1969

¹⁴ Robert D. Putman, **Making Democracy Work: Civic Traditions in Modern Italy**. New Jersey, Princeton University Press, 1992

number of them remained to play a critical role in the delivery of relief and rehabilitation fundamental to the creation of a new democracy.

The existence of a diverse, strong, vibrant civil society is the third pillar of democracy and good governance. This has several advantages. It means that alternative means of service provision are available to the state. Involving civil society in governance promotes the utilization of accumulated social capital. It taps the wellspring of voluntarism. These organizations provide a buffer between the citizen and the state. They often provide a forum for citizen participation and articulation of needs and demands. It is vital, in building decentralized democratic governance at the subnational level, to promote organized and systematic dialogue among the governance stakeholders including the state, civil society (NGO's), and the private sector to map out in a participatory manner the shared roles, responsibilities and mutual expectations for governance. It is also important to determine governance activities which will require joint action and by which parties (stakeholders).

There has been a tendency for NGOs to be set up as parallel structures without working links or networks with hierarchy of state structures, with mutual suspicions and antagonisms. Some NGOs understand their role of watchdog as that equivalent of the opposition. The government may reel from what it may regard as unconstructive criticism by the NGOs. Where these mutual suspicions exist, state agencies find it hard to regard NGOs as allies in service provision. The remedy is for donors to provide capacity technical assistance for building bridges between local government agencies and civil society organizations and community based organizations through joint action such as development planning.

In some countries too many (number) NGOs and too small (size) NGOs and CBOs have been established. Some exist at the national level without outreach offices in the countryside (over centralized). They are atomized and isolated, often one individual brief case owned and operated, set up as traps for donor funding. Competition among them is ruthless and attempts to organize them in umbrella networks are resisted. They may be limited in capacity and poor in carrying out assignments. Over-zealousness may not be matched by know-how and effective performance. It should also be noted that there could

be negative NGOs and CBOs in the community, for example, crime syndicates, or groups that carry out tribal or religious female circumcision (or genital mutilation).

Technical and capacity building for civil society is a major priority in building decentralized governance. In some countries NGOS and CBO are located in the capitals at the national level and need to be assisted to decentralize. In some countries they are too many and need to be assisted to form umbrella organizations, while in others they may be simply too few and the need is to promote the creation of new ones. In some countries the NGOS, CBOs, and state agencies misunderstand each other's roles and responsibilities and need to be assisted to recognize their exclusive boundaries as well as areas of joint action and programming.

6. ENHANCEMENT OF LOCAL GOVERNMENT AUTONOMY CAPACITY

6.1 There are Two Ways of Enhancing Local Government Autonomy.

One is to mobilize own resources from the local community and reduce financial dependency on the central government. This option is realistic and practical in a situation where the local community is rich and there are potential revenue bases, but the subnational authority has limited capacity to assess and collect the revenue. The second option regards subnational governments that receive substantial transfers from the central government but fail to account for the use of the funds, which causes the central government to interfere in local affairs and thus reduce the degree of autonomy that they could enjoy. Achieving high levels of financial management will enhance the degree of local government autonomy.

6.2 There are Appropriate Design Features, which Enhance Local Government Autonomy.

If the area of the local authority is too small, the local government is not likely to be strong and autonomous. The local government area should be a viable economic unit enjoying economies of scale. It should be politically homogenous and able to act with community solidarity. A highly socially and economically divided community will not mobilize collective energy and force to defend itself from external control and

subjugation. Political strength and the capacity to lobby may deter central government encroachment on the authority of local government. One strategy is for all local governments to form an association which will promote their interests including keeping central government interference at a minimum and this can be in exchange for mobilizing local electoral support for national politicians.

6.3 Democratic Participation from the Bottom-up Can Enhance Local Government Autonomy.

In countries in which there is no democratic election of subnational governments and regional leaders are appointed by the central government, introducing democratic elections and enabling residents to elect their regional government can dramatically enhance local autonomy. Then the subnational government will be accountable to the citizens in the regions. This is democratic participation bottom up. It would allow the conditions of the Tiebout Model to come into effect. Service delivery would be more responsive because the consumers would have revealed community preferences. Since government activities would reflect household and community priorities and preferences there would be more willingness to pay taxes (low levels of tax evasion). Also officials would not be seen as agents of a remote central government, which can be cheated by shirking work and by moral hazard (corruption and wasteful expenditure). Citizens would not be indifferent to the corruption of local officials since their own money, paid in form of taxes, would be at stake. Once a local government has a reputation for good financial accountability, it will receive funds from the central government and from donors without too many conditionalities. Thus, it will have gained higher financial autonomy.

6.4 The Moral Hazards of Failure to Control Finance and Low Levels of Local Government Autonomy.

It may be assumed that local government leaders have a moral obligation to deliver services to meet the dire needs of the people who elected them and that they have an obligation to the central government to use transferred funds for the benefit and the welfare of the people. Yet in the absence of effective controls they are likely to divert the funds knowing that the chances of being caught and punished are remote.

*“If, for example, a misfortune costs a person \$1000, but insurance will pay \$2000, the insured person has no incentive to avoid the misfortune and may act to bring it on. This tendency of insurance to change behavior is called **moral hazard**. Fire insurance encourages arson, automobile insurance encourages accidents, and disability insurance encourages dismemberment. The problem of moral hazard also affects government programs that insure people against misfortune. A variety of programs help people who suffer the misfortune of poverty. Aid to dependent children helps people who suffer the misfortune of having children to raise that they cannot financially support. Unemployment compensation pays people who suffer the misfortune of losing their jobs. Food stamps and public housing help the poor. Yet all these programs also suffer from problems of moral hazard. They increase children born out of wedlock, unemployment, and poverty”¹⁵.*

Giving money to local governments without effective controls, leads to a “couldn’t care less” attitude. Local government officials know that the people cannot rise against them, because the people do not know what is going on and the controlling government has no way of knowing misuse of funds since it has not set up effective financial accounting systems. Those benefiting from corruption have no moral pangs and no wounded conscience since the victim is a remote impersonal entity, the central government.

6.5 The Operation of Soft and Hard Budget Constraints and Enhancing Local Government Autonomy.

Local governments also enjoy what has been called the **soft budget constraint**. Year in and year out, they expect the central government to transfer money to them. If they overspend, they are bailed out by central government. If they were undergoing the burden and cost of collecting the money, they might be more disciplined in the way they spend the money. And the people would be concerned how the tax they pay is used to give them equivalent services. Instead the local governments regard the central government as a remote, benevolent, unfailing provider, who will always step in to stop bankruptcy through bailouts. These attitudes and behaviors are greatly pronounced in situations in which there is no effective external control, decentralization of finance without control. If a given local government was allowed to suffer the consequences of its financial carelessness, by having to cut back on expenditures (i.e. reduce their allowances) to balance its budget, this **hard budget constraint** would teach them a lesson to spend within their means. A hard budget constraint would reinforce and entrench financial

¹⁵ **From Wikipedia, the free encyclopedia**

discipline among local governments, which would in term translate into enhanced local autonomy.

6.6 Timely and Accurate Accountability Enhance Local Government Autonomy.

If the subnational government financial management systems had the capacity to keep accurate and up-to-date books of accounts, this would reduce the high level of diversion of funds. Subnational governments that keep books of accounts according to specified standards should be rewarded (carrots approach) with greater autonomy and those subnational governments that do not keep books of accounts to specific standards should be punished (stick approach) with reduced autonomy. The rewards could be financial but also symbolic such as annual competitions and awards.

The Auditor General's office should ensure that auditing of Books of Accounts of Central Government Ministries are not out of date. In many developing countries audited accounts of central Ministries are in arrears (late). And with limited capacity to cope with auditing demands at the national level, keeping up-to-date the auditing of subnational governments books of account has a low priority. Thus financial mismanagement at the subnational government level thrives on incapacity to keep up-to-date audited accounts. Poorly kept books of accounts make auditing difficult. Late auditing leads to a "couldn't care less" attitude to keeping good books of account. The two evils (failures) reinforce each other and lead to major reduction in local autonomy.

6.7 Effective Tender Process and Enhancement of Local Government Autonomy.

Most of the financial losses at the subnational government level are not due to crude and unsophisticated embezzlement of funds, which in the long run may be discovered. The predominant method is abuse of the tender process. Subnational leaders or their collaborators will set up own consulting firms and NGOs, which then compete and win tenders. They then provide substandard goods and services. Since the subnational leaders will have lost moral authority to demand high quality goods and services, the central government is advised to establish effective monitoring and check compliance with tender regulations. It may be useful publishing a list of winning and losing tender firms and NGOs and the names of their directors in each specific bid. The judicial system should enforce and prosecute corrupt officials and confiscate any ill-gotten property.

6.8 Local Autonomy and Checks and Balances between Local and Central Governments

In democratic systems of decentralization, national politicians and local politicians may have mutual dependency for the mobilization of electoral support. Local politicians can resist central government policies by threatening to de-campaign them at the local level. Similarly, when the local politicians are engaged in local competitive elections endorsement by national figures can be a critical winning strategy.

In most countries subnational governments do not have the right to secede as it is feared that local autonomy would become nationalistic and seek to break off and become an independent state. The subnational governments may push for greater and greater autonomy short of independence. This potential for local autonomy leading to independence is real in those countries in which the subnational entity has huge mineral resources. The threat of local autonomy leading to independence especially if the right to secede is granted has not materialized in Ethiopia, largely because all the regions are economically dependent on the central government and breaking away would burden the region with large administrative costs, which are now absorbed by the central government. This is, of course, the economies of scale mentioned above.

It is often feared that the local autonomy could be misused to deny human rights to minorities found in the subnational region. National and international human rights and constitutional rights are invalidated by the attainment of subnational government authority. And subnational governments cannot act with impunity and need to be made aware of these limitations through civic education.

Local autonomy must not be used to nurture and harbor armed rebellion against the central government. This the surest way of ending local autonomy for the national army would deploy in the area and curtail the civil liberties of the residents of the subnational region. It is in the interest of leaders at the subnational level to promote and preserve democratic practices and culture and this will guarantee the preservation and deepening of their autonomy.

Lastly, it has been observed that while the local elites who have captured the local state to corruptly aggrandize their personal and group interests may advocate for checks and balances to keep off the central government, the marginalized and excluded will be expecting protection from the central government.

“ In the traditional discussion of decentralization and federalism, the focus is on checks and balances, on how to restrain the central government’s power, whereas in many situations in developing countries, the poor and minorities, oppressed by local power groups, may be looking to the central state for protection and relief”¹⁶

7. DECENTRALIZATION AND CITIZEN PARTICIPATION

7.1 Participation through Voice Mechanisms

The rationale (benefits) of decentralization was fully articulated in the Tiebout model¹⁷. If subnational regions A, B, C are homogenous, like a case in which all of them are rural economies, then it is efficient for the central government to design a development package which is centrally administered in all the regions. On the other hand, if the regions differ A is agricultural, B is industrial, C is mining, and each region is internally homogeneous, the Tiebout model shows considerable benefits, efficiencies, to be gained through democratic decentralization. The residents are able to determine, better than the central state, their issues, priorities, policies and programmes in a manner, which will reflect their common and collective interests. And the subnational leaders are in a better position to articulate those preferences such that the most representative will be elected. Ideally, the size of the subnational territory should be small enough to facilitate direct participatory democracy. The leaders and the issues are not remote from the citizens. As in the Athenian democracy, or as in the current Swiss cantons, the citizens can directly

¹⁶ Pranab Bardham, “Decentralization of Governance and Development”, The Journal of Economic Perspectives, Volume 16, Number 4, Fall 2002, pp. 185-205

¹⁷ Tiebout Charles M., “A pure Theory of Local Expenditures.” Journal of Political Economy, 64: 5, pp. 416-24

attend the general assembly and directly participate in the discussions and the policy and decision making process.

In Uganda direct citizen participation at the lowest levels (units) of governance (the parish or sub-county), where direct participation is feasible has been promoted. Every ordinary citizen has a right to attend the parish council meeting. The council has elected officials but any citizen can attend and contribute to the discussions. At any level higher than this direct participation is not feasible, and the citizens must rely on elected representatives. This has been called **participation through voice mechanisms**.

In all countries, it is possible to identify the grassroots level where the population is settled and to set up similar decentralized units for direct participation. The subnational governments of A, B, C “offer different public expenditure bundles, and mobile individuals are supposed to allocate themselves according to their preferences”¹⁸. They can vote with their feet by moving to the regions that offer better conditions and benefits.

Strengthening grassroots units of feasible direct participatory democracy through decentralization does not preclude the aggregation of higher-level tiers for the purpose of achieving economies of scale. Even in Switzerland where direct participatory democracy has thrived on the canton units, larger regional units have been formed for achieving economies of scale. The critical point is that the cantons remain the foundations on which the larger units are based.

In countries that are very large and populous such as China, Russia, India, Brazil, the United States, and Canada. It is not adequate to decentralize to the region (or Province or state) because these are still too remote from the grassroots where the households and the communities are settled. Direct participatory democracy is not feasible. It is therefore imperative to identify the units at which participation would be meaningful and real and to further decentralize to those levels.

¹⁸ Pranab Bardham, “Decentralization of Governance and Development”, The Journal of Economic Perspectives, Volume 16, Number 4, Fall 2002, pp. 185-205

In the past emphasis has been placed on voice and exit as the techniques for enhancing citizen participation, and they remain potent instruments. But it is vital in this age of the information revolution to harness information technology for bottom-up citizen participatory democracy. If the information digital gaps prevailing in developing countries were overcome, then genuine bottom up planning and decision making from the grassroots levels where the majority of households live could be achieved. Planning databases would be set up and would be easy to integrate to higher tier plans and the national plan and budget. At present, in many developing countries the planning process at grassroots level is manual and the amount of information generated is not easy to aggregate into higher-level plans. Given advances in information technology this is a shame on mankind.

7.2 Limits of Direct Participation in Management.

In the mid 80's President Julius Nyerere of Tanzania launched a policy to enable workers influence management decisions in agencies and enterprises. The directive was misconstrued and workers invaded the offices of Managing Directors and General Managers. There was administrative paralysis. The directive was revoked. Yet the goal of bottom up participation is so fundamental to responsive governance that effective ways must be found to achieve it.

7.3 Participation through Mass Demonstrations

The effectiveness of participation through voice mechanisms depends on commitment to due process and rules of fairness and transparency in democratic processes and procedures. Otherwise citizens will resort to the use of the power of the bullet, rather than the power of the ballot. Elections must be democratic and must be frequent. They must be free and fair and must be seen to be free of manipulation and fraud. In other words, they must be credible and legitimate. They should confer real mandate on the representatives. Otherwise, when citizens have lost trust in the efficacy of electoral systems, they may resort to **mass demonstrations** (Ukraine and Venezuela). The trouble with this approach is that it may lead to violence.

Governments need technical assistance to set up capable Electoral Commissions (institution building) and to maintain up to date voter registration systems (computerizations, information systems and databases). Participation through electoral voice can result in the choice of alternative leaders, and also in the recall of representatives. This opportunity minimizes resort to armed rebellion and leads to peace and security.

7.4 Citizen Participation Can also Be Promoted through Public Hearings

Citizen participation can also be promoted through public hearings. Public hearings have been effectively used in Latin America to subject the proposed budget to public scrutiny to inclusion and revisions. In Franco phone countries, public hearings are convened at which citizens can pose questions to public officials on public policies and actions and omissions. In Uganda, methods used include extensive consultations, public dialogues, and focus group meetings. Proposed draft policies are circulated to relevant stakeholders for comments, observations, and call for changes. Extensive participation in proposed polices takes place in the media (newspapers and radios).

7.5 Citizens May Participate though Exit Mechanisms

Citizens may participate though exit mechanisms (voting with their feet) as provided for in the Tiebout model. Investors can move from one town or city that has a reputation for poor services and move to another township. And consumers can shift from one product or service to another. This mechanism of voting with one's feet can put considerable pressure on public service providers. Unfortunately voting with one's feet by moving from one poor region of poor governance to an effective one may not always be feasible. Citizens in developing countries have rigid sunk costs in land and housing which are not easy to dispose and to move to better jurisdictions. Some preconditions for the Tiebout model do not exist in poor countries. The citizens are not fully informed, population mobility is very low (excepting urbanization), information and accounting systems for monitoring public bureaucrats is very weak.

8. DECENTRALIZATION AND SERVICE DELIVERY TO CITIZENS

Service delivery to citizens may be considered from two important principles: decentralization of service provision guided by **the principle of subsidiarity** and decentralization guided by **the principle of management by results**. A service is best delivered at the subnational unit level where the activities are best done. Some services are better delivered at the national level; others are best done at the regional level, while many services are best done at the grassroots level where the consumers of those services are located. Assigning duties and responsibilities guided by the principle of subsidiarity is likely to lead to positive answers to the following eight questions used in evaluating the efficacy of the service delivery performance:

	Table 2: Quality of Services Being Delivered to Citizens
1	Are services to citizens <i>relevant</i> and <i>responsive</i> to their real problems and concerns?
2	Are services to citizens <i>adequate</i> in <i>quantity</i> in terms of numbers served?
3	Are services to citizens being delivered <i>effectively</i> in terms of achieving targets?
4	Are services to citizens being delivered <i>efficiently</i> with minimal costs and maximal benefits? What is the <i>ratio</i> of outputs in relationship to inputs?
5	Are services to citizens being delivered in a <i>timely</i> manner? No undue delays?
6	Are services to citizens <i>adequate in quality</i> in terms of standards and norms?
7	Are services to citizens achieving the results in terms of <i>expected outcomes</i> ?
8	Are services to citizens achieving the results in terms of <i>expected impacts</i> ?

The concept of service delivery to citizens forces actors (local governments, groups of affected citizens, etc) to focus on what exactly the subnational government intends or plans to provide to the citizens, and what the citizens should expect in terms of quantity and quality of the services being rendered. This is management by results. It might be that the target is to bring clean drinking water (accessibility) to within half a kilometer distance from each rural household. Or that each village will be served by at least one primary health care center and one primary school by the end of 2005.

First, it is essential to state that base line and the expected performance in terms of the baseline. It attempts to be very explicit about the expected outcome and impact of the specific services being delivered. It has been successfully introduced in the developed countries (UK, USA, Canada, Australia, and the OECD countries. However, developing countries are lagging very far behind.

The service delivery approach has also led to innovations in the field of service delivery measurement. One important and well-developed method is citizen surveys and polls that seek information on whether services reach the intended beneficiaries and their level of satisfaction with the services being delivered in terms of the eight qualities of services outlined above.

CIET international based in Mexico has used sentinel sites, which are survey-sampling locations in the countryside among the population that are receiving services. The surveys generate data on each specific service being delivered (health, education, extension) in terms of the frequency that the citizens receive the service and their assessment of relevance, quantity, and quality. CIET international calls this approach “evidence-based planning”. Since the sentinel sites do not coincide with administrative planning boundaries of decentralized units, the data is not easy to aggregate and fit with subnational government planning areas. The system can be made relevant by making the grassroots decentralized units (communes, parishes etc) the sentinel sites from which to collect the data which can then be correlated with the administrative statistics of the planning areas.

It is vital that the decentralized subnational governments introduce results oriented management: in terms of targets, inputs, activities, outputs, outcomes and impacts¹⁹. And that implementation of projects and provision of services is results-based, monitored and evaluated.²⁰

¹⁹ UNDP, Measuring and managing Results: lessons for Development Cooperation. New York: UNDP, Office of Evaluation and Strategic Planning, 1997

²⁰ Jody Zall Kusek and Ray C. Rist, Ten steps to a Results-Based Monitoring and Evaluation system. Washington, DC: the World Bank, 2004

9. GOOD PRACTICES AND LESSONS LEARNED

9.1 Rules of Good Practices and Lessons Learned²¹

G.M.Guess, W.Loehr and Jorge Martinez-Vazquez developed the following principles or “rules” of fiscal decentralization:

Autonomy: subnational governments should be independent in setting their own expenditure priorities. If priorities are given by centralized structures, then it is not decentralization, because the subnational government is being treated essentially as an appendage of central government.

Revenue Adequacy: The subnational governments should have revenues available to meet their obligations. This does not imply that they will necessarily have everything they need to deliver services, however, it points to the need to ensure that central ministries do not consume scarce national resources for functions that have been devolved to the subnational governments.

Equity: Funds for the subnational governments should vary positively with the need factors and inversely with their own capacity to tax. This means that central government must take a careful look at revenue allocations in relation to the unique needs of subnational governments. This rule often gets applied by means of an allocation formula which differentiates among subnational governments according to criteria like basic unmet needs, poverty index, population density, remoteness and the like.

Predictability: This rule is very important. Subnational governments should be able to predict revenues available to them from both their own sources (via revenue projections), from automatic shares in taxes, and from transfers for specific purposes. Budget accuracy is essential to good governance. Virtually any system for tax sharing and/or transfers that avoid automatic releases will be open to politicization and administrative fiat. So it is important to devise a system which, to the degree possible, shares resources on an ‘automatic’ basis in accord with one or more formulae.

²¹ G.M.Guess, W.Loehr and Jorge Martinez-Vazquez, “Fiscal Decentralization: A Methodology for case studies”, USAID under the Consulting Assistance on Economic Reform(CAER 11) project Task order #4.

Resource Allocation: In order to obtain efficiency, revenues should be received in a neutral manner relative to the subnational government's decision about allocation to different sectors. In other words, efficiency will decline to the degree that revenues do not allow management flexibility or require excessive 'pre-audit' (i.e. central approval) of expenditures.

Simplicity: Revenue sharing should be simple and transparent so that subnational governments, central government and citizens understand how much is being shared for what purposes. The practices of 'grantsmanship' should be discouraged even though it tends to be highly valued in government leadership in more dysfunctional centralized systems. 'Grantsmanship' basically refers to the ability of a leader to leverage resources out of the system above and beyond the norm. Whether politician or civil servant, the grantsmen approach, if widespread, undermines the system's credibility and transparency.

Incentives: Good management and efficient service delivery should be rewarded. There are a variety of ways to structure incentives so that they do not get disguised as another form of 'grantsmanship'.

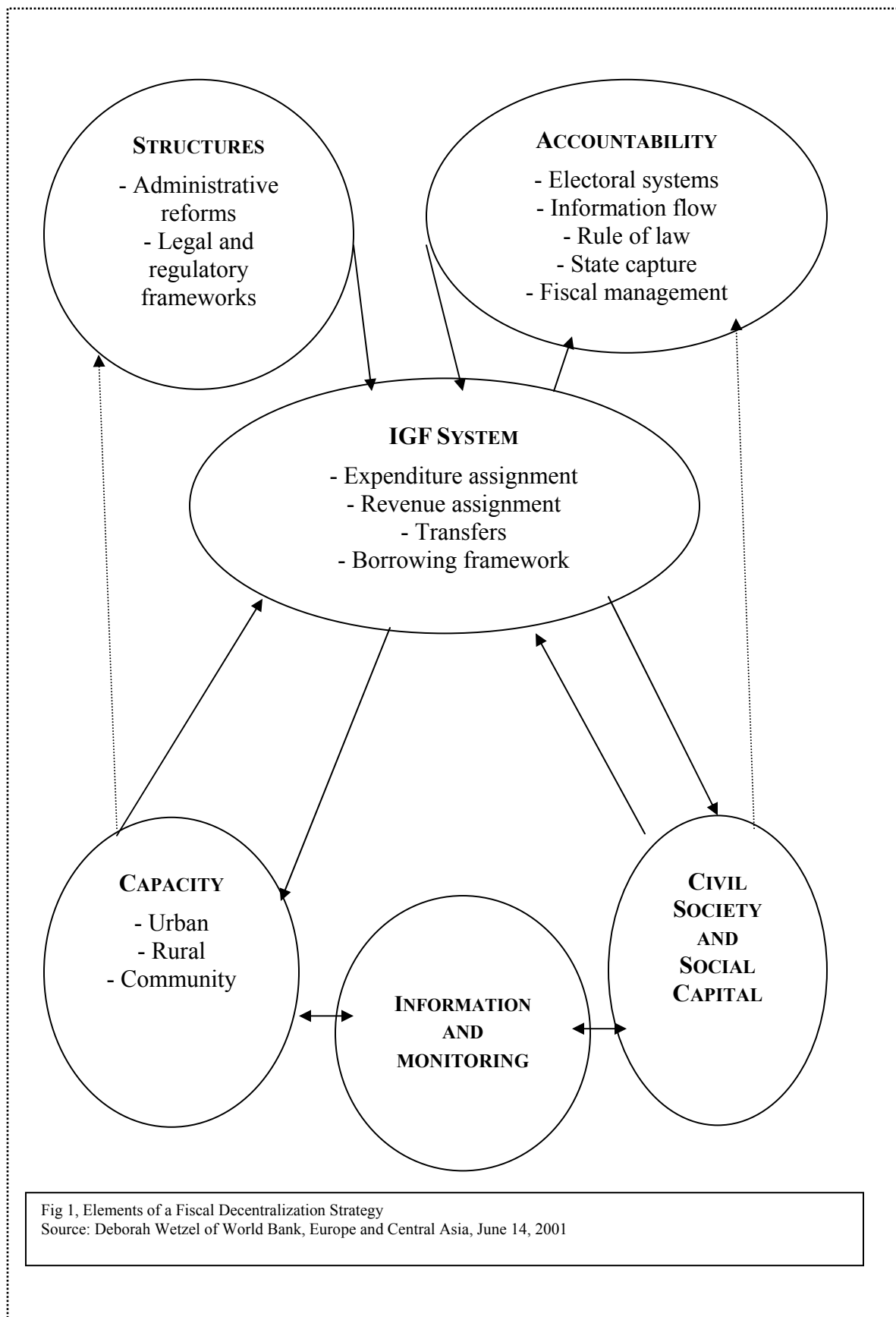
Safeguards for Grantors: Central government has an acceptable role to impose some safeguards to ensure that objectives are met where it is transferring funds for specific purposes or simply sharing a portion of tax revenue. In the former case, a more activist monitoring role is appropriate, in the latter case (untied sharing of revenues) the most important role is to ensure that cumulatively the subnational governments do not exceed certain safe levels of project commitments and borrowing (if they are allowed to incur deficits through credit finance). These roles are especially important in a unitary state like Thailand. The trick is to strike a balance between the rule of 'safeguards' and the rules of 'autonomy and resource allocation'.

9.2 A Holistic Model of Good Practices and Lessons Learned²²

The holistic model (by Deborah Wetzel) of good practices and lessons locates the decentralization subsystem within five subsystems with which it interacts. At national level (first layer) are established structures that are conducive to decentralization. Administrative reforms are undertaken and legal and regulatory frameworks are set up. This is the first set of overpinnings. The second overpinning is the systems of accountability that are set up. These include electoral systems, communication and information generation and distribution channels, rule of law and mechanisms to prevent state capture, and macro fiscal management systems. This is the second set of overpinnings. At the micro level, three underpinnings are required: i) capacity of the urban and rural communities, ii) information and monitoring systems, and iii) the nature and quality of civil society and its mobilization of social capital. These three constitute the underpinnings.

In fig.1, **Elements of a Fiscal Decentralization Strategy**, the first layer reflects aspects of the contextual environment that go beyond the system of intergovernmental finance, but that have important influence on how effective decentralization may be. These include the structure of government and several dimensions accountability, freedom of information, rule of law, the extent of state capture and even the extent to which fiscal management, both on the expenditure and revenue side have advanced.

²² Deborah Wetzel, Decentralization in the Transition economies: challenges and the road ahead. World Bank, June 14 2001



The second layer sets out the constituent parts of a system of intergovernmental finance: expenditure assignments, revenue assignments, the transfer system, and the legal and regulatory framework for subnational borrowing. It is important this system be coherent and create the right incentives for responsible behavior for each part of the system. The third layer is composed of elements such as capacity building, strengthening of civil society, specific systems of information and monitoring.

The effectiveness of an intergovernmental financial system (IGF) for decentralization depends on the performance of the two overpinnings and the three underpinnings. The four elements of the IGF are expenditure assignment, revenue assignment, transfers, and borrowing framework. The exchanges between decentralized fiscal subsystem and the overpinnings and underpinnings are shown in the illustration

When the 27 countries of the Independent Commonwealth Of States (ICS) were rated using this model, their level of progress was classified into: Keen decentralizers, Uncertain decentralizers, Non-decentralizers, Decentralizers by necessity.

The countries are rated in terms of the seven challenges derived from the holistic model:

- Challenge 1. Adapting to changing government structures: they must determine the appropriate role and size of the subnational level. Measures to reform government structures must take into account the appropriate scale of key services and the roles and responsibilities must be set out in a clear legal framework.
- Challenge 2. Strengthening Accountability: Mechanisms that affect the degree to which local governments can be held accountable are: elections, mobility, information, rule of law and the extent to which the state can be influenced by outside interest. Of these, it has been said that elections ('voice') and freedom to move to another jurisdiction ('exit') are probably among the most discussed in the literature.

Challenge 3. Managing shared responsibilities:

Although countries usually have legislation indicating the levels of government and their responsibilities in given areas, it typically does not go far enough in specifying the details for each level's involvement.

It is important that all stakeholders agree upon objectives and decide who does what, e.g. with regard to financing, regulating and provision should be clearly established. Systems of checks and balances should be established including alternative service provision.

Challenge 4. Augmenting Revenue Autonomy:

The limited amount of revenue autonomy at the local level is perhaps the most significant signal that countries have not really decentralized, but rather have deconcentrated, or delegated responsibilities.

Many countries have very high marginal tax rates, which discourage local governments from making use of own taxes.

Revenue autonomy can probably best be increased by starting simply and modestly.

Challenge 5. Clarifying transfers:

One basic point that is often disregarded is the need to use the mechanism created as the basis for determining the resources transferred.

After going great lengths to create formula-based systems, some countries carry out actions, which completely undermine those very systems.

Once an approach for allocating resources is agreed upon, there should not be other ad hoc approaches that undermine the incentives of the system.

Challenge 6. Managing and monitoring subnational borrowing

Subnational authorities must adapt to a more rigorous standard of accountability associated with financing their activities on commercial terms. National authorities must adapt to the role of an effective regulator, moving away from the more traditional role of directly controlling the finances of subnational governments.

Countries that have been active in establishing a stable and effective regulatory framework for subnational borrowing are the most committed to supporting the development of autonomous subnational governments.

Challenge 7. Capacity Building.

Building capacity requires two key elements: creating incentives for localities to undertake the actions that support effective capacity, and giving support and guidance as they build their skills at decision-making, planning, resource mobilization and management, communication and coordination, conflict resolution, and the like.

Rather than plan and make large up-front investments in local capacity building as a prerequisite for devolution of responsibility, it is likely to be quicker and more cost-effective to begin the process of devolution, to permit learning by doing and to build capacity through practice. The key is to make sure that capacities that are built from the bottom-up are consistent with the strategies of decentralization being proposed from the top-down.

10. INNOVATIONS IN DECENTRALIZED GOVERNANCE

10.1 Avoid One Size Fits All and Reinventing The Wheel

Decentralization innovativeness must avoid two extremes. One is very skeptical about transfer of innovations from one country to another on the ground that these may be inappropriate, irrelevant and harmful. It is important to avoid a one-size-fits-all mentality. If this attitude is pushed to the extreme, then there will be a lot of wasteful reinvention of the wheel. Decentralization is now a global application and there are vast amounts of innovations that have been applied and tested in many countries. All that is required is creative adaptation and adoption of best practices and lessons. The second extreme is unimaginative copying of models and approaches from other countries without a careful consideration of the context in which they were invented. In particular, the major mistake is a failure to assess the readiness of the copying society to absorb the innovation. Thus a

new decentralization innovation may fail not because it is inherently faulty, but that the society in which it is being adopted is not ready. For example, if there is no political will among the leaders about the desirability of democratic decentralization, it is unrealistic to attempt to sell decentralization ideas and approaches to such a society.

10.2 A Comprehensive Model of Decentralization Actions

The second most important decentralization innovation strategy is to fit innovations to the sequential stages of progress in decentralization. It is also advisable to innovate in a gradualist manner and allow subnational governments to bite what they can chew. A menu of strategic choices and options is presented in Table 1, a comprehensive model of decentralization actions.

Table 1: A COMPREHENSIVE MODEL OF DECENTRALIZATION ACTIONS		
	Stage of Progress	Appropriate Decentralization Innovations
1	Zero stage. Highly centralized. Autocratic	A small internal elite committed to decentralization reforms should network with external partners to advocate and promote support for decentralization. The target should be to create political will and commitment among the top political leadership. External technical assistance should target building the capacity of domestic champions of decentralization reforms.
2	Emerging political will and committed leadership and champions.	The government may be assisted to set up decentralization task forces and study commissions to use participatory methods to generate decentralization policy proposals and options. Such study and task forces can access a wealth of online information and databases starting with the World Bank website on decentralization.
3	Country has just adopted a policy of democratic decentralization by devolution.	Adopt a legislative framework for democratic decentralization. The government presents the decentralization policy to parliament to pass a Decentralization Act. This also means that there is a countrywide debate and consultation so that citizens are involved in the adoption of decentralization. Subnational governments have a legal personality, can sue and be sued in the courts of law (subject to the rule of law)
4	Country has created subnational governments deriving their authority and powers from an Act of Parliament. Or highest legislative body in the land.	At the earliest opportunity, the system of democratic decentralization should be embodied as a provision in the national constitution, and subnational constitutions if they exist. This provision should be formulated in terms of enduring principles and avoid time bound specifics. For example, provide the principle of democratic election without specifying types of electoral systems which can be decided by parliament or by the Electoral Commission. This innovation brings decentralization into the realm of constitutionalism to be interpreted by constitutional courts in case of disagreements.
5	Assignment of functions and resources to subnational governments	There is a whole gamut of decentralization institutional reforms of national and subnational government agencies to reflect share of functions and resources. These may conceptualize also in a sequence from first generation structural reforms that focus on the rationalization and streamlining of functions and structures. This must be carried out at the national level and subnational level as well.

6	Revenue and expenditure re Assignment	This a very technical subject for which formulas have been developed. It involves the determination of what revenues shall be collected and by what tier and how the expenditures are to be shared and the manner of their disbursement.
7	Subnational borrowing	This is for a few subnational governments that are large (China, Russia, Brazil, Nigeria), that control substantial economic assets and can engage in commercial borrowing or investment. Design subnational policies, regulations and controls bearing in mind that this borrowing can be abused and that the nation can be landed in financial crisis (Brazil, Argentina, and Asia)
8	Second generation structural reforms for countries that have completed first generation reforms	There is a need to adopt innovations of strategic visioning and planning. And in particular, the adoption of results-oriented management. Agencies shift from management based on inputs to demand side management focusing on output, outcomes and impacts. The emphasis is on bottom-up participatory methodologies.
9	Strengthening grassroots democracy and bottom up planning	Deliberate innovations that promote grassroots democracy need to be promoted. There is a tendency to ignore this or to make it a meaningless rhetoric. The tradition of communes in Switzerland needs to be explored by all countries and lessons derived from it. It is an empty claim to say that grassroots democracy is not possible because of the large-scale nature of modern states.
10	Curbing the propensity for subnational entities to be captured by local interests, and corrupt elements	The greatest danger to subnational decentralized democracy is the hijacking (or local capture) of the subnational polity by elites (political and business) against grassroots interests. This requires the introduction of countervailing innovations. Mobilization of mass-based NGOs and CBOs as a count weight to landed, and property, elites.
11	Innovations and systems of accountability	Up-to-date financial bookkeeping must be institutionalized. Then the planning system should be computerized. The financial management system should be IT-driven. Up-to-date audited accounts must be institutionalized. And budgeting should be subject to strict hard budget constraints and elimination of opportunities for moral hazard.
12	Introduction and institutionalization of a culture of results-based monitoring and Evaluation systems	The precondition for results monitoring and evaluating is result-based planning and programming. The World Bank has evolved a sophisticated results-based monitoring and evaluation system but it is impractical to apply it to programmes that were designed and implemented without a results oriented management and planning system. However, the principle “better-late-than-never” should be adopted.

10.3 First Generation Decentralization Reforms

During the last two decades, public sector reforms have concentrated on redefining the roles and functions of public administration and streamlining structures and institutions to carry out those functions. These were the so-called first generation reforms. Massive privatization was undertaken and private sector development initiatives were emphasized. Many countries launched democratic decentralization policies and programmes. Public administration in many countries is still grappling with this stage of first generation reforms. It is therefore important to determine where a country has reached with these

reforms and to consider if there is readiness and to initiate the so-called second-generation reforms, which focus on performance and the quality of services being delivered to citizens.

10.4 Need for Results and Performance Management Systems

In Uganda, the Government adopted a policy of results-oriented management (ROM). But the implementing rate has not been high because the system requires a lot of money and technical know-how to implement it. Besides, it put heavy demands on strategic and action planning skills of public administration managers. The government was already coping with challenges of implementing first generation reforms, making it difficult to deal with the complexities of introducing results and performance management in the public service at the same time. There is need the international agencies and donors to be serious in their technical assistance to countries and to examine the experiences of such countries as USA, Canada, Australia, and United Kingdom and derive best practices and lessons for assisting a country like Uganda to adopt results and performance management in the public sector. In particular, there is need to assist government agencies adopt planning up to outcomes and impacts, and not simply inputs and outputs. This would also facilitate monitoring and evaluation of results.

10.5 Need for Effective Regulation

It is now very clear that massive privatization of public enterprises creates a need for the regulation of the emerging competitive manufacturing and service enterprises. The central Government must set production and service standards that must be met. Without this regulation, the consumers can be exposed to substandard products and services, and the environment can be further degraded. In Uganda it is now realized that the capacity of Uganda Bureau of Standards needs to be boosted and new regulatory agencies need to be put in place. The extensive decentralization of expenditure to districts has led to the recognition that the central government needs to monitor and regulate and uphold standards of financial management, for the capacity to maintain up-to-date books of accounts hardly exist and capacity to conduct up-to-date audits is limited.

10.6 Urban Governance to Cope with User Population Pressure on Services

In many countries, the area (space) of towns and cities have not expanded. Populations of users of urban services (transport, water and sewerage systems, the electricity and energy grid) have expanded beyond their capacity (there has been limited expansion to cope with the needs). There is an urgent strategic need for urban public administration to focus on aligning services to new demands. How can long term urban planning anticipate rapid expansion of user demands and respond creatively?

10.7 Information Systems and the Public Administration Digital Gap

The information revolution has still not been fully realized inside the public administration of developing countries. The vision should be to connect central ministries databases with each other and between them and subnational decentralized governments. In Uganda this Internet connectivity should link the lowest administrative units (parishes or sub-counties) to each other and to the districts. The dream should be that online information systems permeate all units and levels of public administration. The public administration digital gap is very wide in Africa and the UN could coordinate the effort and resources to enable Africa catch up.

11. CONCLUSIONS

Decentralization is the transfer of authority and power from the central government to subnational governments. Instead of political and economic power being concentrated at the national state level (over centralization), power is dispersed to lower level subnational entities. The subnational governments are themselves arranged in tiers (state, region, municipality, canton, parish or towns). It is a common practice to specify the lower primary unit to which power has been decentralized. This specification may be stepwise. The central state transfers to the regional level, and the regional level transfers to the municipal level. Transfers may occur within transfers.

Decentralization may take three forms decentralizing by deconcentration which is a downward transfer of administrative authority within the administrative network,

decentralization by delegation to semi-autonomous bodies which is also purely administrative powers, and decentralization by devolution which transfers all the forms of power, and especially political power. Under decentralization by devolution, an autonomous corporate body politic is created at the subnational level with both political and administrative power. These powers are derived from the residents of the area through democratic elections. Grassroots participatory democratic practices are essential to the success of this form of decentralization.

Several fundamental principles need to be enshrined in the design of decentralized entities. One is the principle of subsidiarity which specifies that functions (service provision) should be undertaken at the lowest level at which they are best provided and best consumed. Thus primary schools and primary health care centers should be provided at the grassroots level at which they are consumed. By “provided” is meant the decisions about preferences and options. A remote central authority should not decide these allocations. It is in democratic elections that the preferences of residents are revealed and leaders likely to deliver on them are chosen. Thus genuine, or true, grassroots democracy is essential to the success of this form of decentralization.

The conditions of the Tiebout model must be assisted to prevail. The population should be homogeneous and the local polity should not suffer capture by colluding landed, business, trading elites who may use the subnational state machinery to aggrandize power and use it for selfish and corrupt purposes. In such a situation the service delivery by the subnational government will not be efficient. The local government should be able to raise substantial own revenues to be able to assert its own autonomy. The extent to which it relies on central government transfers is the extent to which it is controlled and less autonomous.

When subnational governments depend heavily to central government transfers, then agency problems creep in. Since the central government is far away, the subnational government leaders do not see themselves as agents of the central government with regard to transferred funds. Since the residents are not directly paying the money that their leaders are spending, their right to demand accountability is curtailed. This allows

the phenomena of moral hazard to prevail in which money is wasted, and yet more is sent to bail out the local government, to ensure the services do not stop. Unfortunately, this, in turn, encourages further wasteful spending. Failure to account leads to the central government interfering and curtailing subnational autonomy.

Subnational governments should be subject to the hard budget constraint. They should balance their budget. They should not be encouraged to overspend on the expectation of a bail out. And only very large and prosperous subnational governments should be allowed to borrow, but for capital investments. They should not be shielded from the rewards and punishments of market forces. They should also not be allowed to endanger national financial stability. Subnational governments need not reinvent the wheel and can engage in creative and imaginative adoption of good innovations and best lessons reviewed above.

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