

**This key sheet deals mainly with the administrative and fiscal aspects of decentralisation. For political aspects, see key sheet 12 on 'Decentralisation and political accountability'.**

The purpose of these *Key Sheets* is to provide decision-makers with an easy and up-to-date point of reference on issues relating to the provision of support for sustainable livelihoods.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.

## Overview of the debate

Over the last few years the debate on decentralisation has focused on:

- the advantages of decentralised governance in terms of poverty reduction, political participation, government accountability, responsiveness of public policies and service delivery;
- the limitations to what decentralisation can achieve and the balance between centralisation and decentralisation: which areas are best addressed by which level of government?
- the reform of the state and systems of governance that decentralisation requires and facilitates, as decentralisation alters the structure and institutions of governance;
- the political, financial, administrative and capacity preconditions for successful decentralisation.

## Key issues in decision making

**Scope** Since the 1980s, developing countries have increasingly adopted decentralised forms of governance. Decentralisation – the transfer of authority and responsibility from central to intermediate and local governments – now concerns 78 developed and developing countries. It aims to address failures to foster development and reduce poverty, and to consolidate democracy. It may entail transferring certain planning, financing and management tasks to local units of central agencies ('deconcentration'), lower levels of government ('devolution'), or semi-autonomous authorities ('delegation'). It alters the structure and systems of governance (inter-governmental relations, state–society relations). While deconcentration and delegation imply a reorganisation of central government, devolution means relinquishing political power.

There is no standard model of decentralisation: it varies considerably from country to country. Its impact depends greatly on the original objectives and design, as well as institutional arrangements and implementation. Sustained political will is essential. In order to avoid inefficiencies in the institutional arrangements (Haiti, Zambia), decentralisation must be part of an integrated development policy reflecting locally owned models and the country's commitment. A coherent set of rules must regulate the responsibilities, functions, resources and relationships of the different levels of government. Issues include political (constitutional, legal and regulatory frameworks), fiscal (spending, revenue management, inter-governmental transfers, sub-national borrowing), and administrative factors (civil-service reform, bureaucratic capacity, managerial ability). Financial administrative resources have not always been transferred along with the responsibilities.

**Rationale and limitations** The idea of decentralisation is linked to *subsidiarity* (the lowest level of government that can perform functions efficiently and effectively). Economists justify decentralisation on the grounds of 'allocative efficiency', enhancing the responsiveness of policy-making and the effectiveness of poverty reduction. Decisions taken closest to a local constituency are expected to better reflect the preferences of citizens, especially the poor. As a result, local governments are more likely to implement a poverty policy through community participation and social inclusion. The challenge is to maintain a poverty focus at central and local levels, especially given the risks of local governments being captured by local elites and interest-groups, and of problems such as corruption and gender bias being replicated at the local level.

Decentralisation is not a panacea. Clearly, there are limits to what it can achieve. Not all government functions can or should be decentralised. Decentralising weak states may compound the problems, and small island states may not be ideal candidates. An appropriate balance of centralisation and decentralisation is essential, and there needs to be complementary attention to central government. Decentralisation requires a strong central entity to regulate, to provide an overall framework to manage the re-allocation of responsibilities and resources in a predictable and transparent way, and to assist local governments build capacity in the early stages. For instance, there is compelling evidence that some of the best progress against HIV/AIDS is in countries with strong central government (Thailand). The unequal geographic distribution of resources (oil, water), people and poverty, calls for redistribution policies that only the central government can guarantee via transfers, targeted poverty-reduction programmes and social investment funds. Decentralisation, deconcentration and local governance are generally mutually reinforcing.

**Institutional design** Decentralisation complicates policy-making and co-ordination. For instance, the inchoate Brazilian political system allows local elites to capture the national political process. The regulatory framework must contain the right mix of incentives to avoid or correct destabilising effects and promote gender equality. National governments and central line ministries must retain important policy, regulatory and supervisory roles.

Maintaining **fiscal responsibility** is critical. Local governments must have adequate revenues – either raised locally through taxes or transferred from the centre – as well as the authority to

### Sources of expertise

- Asian Development Bank (AsDB)
- European Centre for Development Policy Management (ECDPM)
- Inter-American Development Bank (IDB)
- International Association for Local Authorities (IULA)
- Municipal Development Programmes for E and S Africa and for C and W Africa
- OECD Public Management Service (PUMA)
- UN Dept of Economic and Social Affairs (UNDESA), Division for Public Economics and Public Administration, and Online Network in Public Administration and Finance (UNPAN)
- UN Capital Development Fund (UNCDF)
- UNDP Decentralized Governance Programme
- World Bank Decentralization Net, Poverty Reduction and Economic Management Network (PREM)
- World Bank Institute (Public Finance, Decentralization and Urban Governance Programme)

### DFID and DGIS experience

- Bolivia, Burkina Faso, India, Indonesia, Mali, Mozambique, Rwanda, Tanzania, Uganda

decide on spending. Expenditure responsibilities of both central and local governments must be made legally explicit to enhance accountability and reduce overlap. As the revenue-raising capacities of local governments often are low, transfers remain the dominant source of revenues. The legal framework ought to clearly establish the formula for calculating transfers, to ensure predictability and avoid protracted, destabilising political bargaining. Indeed, the tax-transfer system is one of the main instruments for achieving redistributive equity at the national level. To avoid financial destabilisation (Argentina, Brazil), sub-national borrowing may be allowed under strict conditions.

**Administrative decentralisation** Local governments must have the capacity to carry out their new functions. Controversy exists on the proper timing, pace and sequencing of reforms – should capacity be built first, or should revenue and responsibilities be transferred first? Often, capacity constraints and the vulnerability of local governments to political capture warrant caution. It may be preferable to continue delivering critical social services in a deconcentrated way, awaiting the building of sufficient capacity at the local level (Bolivia). Furthermore, worries about irresponsible spending and corruption as well as the central government's own reluctance to devolve authority caution against premature decentralisation. There is increasing evidence, however, that the capacities of all levels progressively increase as decentralised service systems mature (Papua New Guinea).

**Civil service reform** is a critical component of administrative decentralisation. Local governance often creates new layers of government, which may overwhelm national budgets, as the increase in local staff may not be matched by a reduction at the central level. Bureaucracies tend to resist reform on political (career perspectives, institutional allegiances, political networks) and efficiency terms (economies of scale and scope, coordination and principal-agent problems, gender inequalities). Appropriate human-resource management is key.

**Improving social service delivery** New local government responsibilities include social services (education, health care), infrastructure (roads, water and irrigation, sewage), the environment (natural resources), social safety nets and sometimes policing. Decentralisation holds promise for improving the delivery of services, as citizen input (participation) and oversight (accountability) tend to enhance the responsiveness of public policies, especially in the social arena. Decentralised governance may, *prima facie*, be more likely to adopt pro-poor policies, but this is not automatic, as local elites can be very successful in directing expenditure and taxation policies to their advantage and in gaining unduly from privatisation. Sub-national governments have increasingly taken responsibility for providing and funding 'local public goods' such as roads, water and sewerage systems, transit, power, and telecommunications networks, as well as other public infrastructure (sometimes establishing innovative public-private partnerships). The decentralised management of social safety nets and social investment funds (Guatemala) tends to improve their targeting.

However, recent evidence from education and health-care decentralisation suggests that its impact is limited and its results mixed. There is no systematic relationship between decentralisation, economic development and poverty reduction. Decentralisation has the potential to improve services for women, but there is little systematic research on this.

Institutionalising an adequate balance of power between the national and local government is a permanently evolving challenge. Decentralisation is a complex multi-dimensional process of governance reform, with a multitude of entry points for donors. Early assistance in the design of strategies is likely to yield higher and longer-term benefits. Donor coordination is critical.

### Key literature

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Key Sheets are available on the Internet at: [www.odi.org.uk/keysheets/](http://www.odi.org.uk/keysheets/)  
or through the websites of DFID and the Netherlands Ministry of Foreign Affairs



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